

FINANCIAL TIMES

US and Emu

Waking up to a nightmare

Richard Lambert, Page 12



Brussels theatres

Upgrade to first class

Page 11

French Communism

Search for post-Marchais direction

Page 2

Today's surveys

FT Telecoms Lottery Business

Separate sections

WORLD NEWS

EU's auditors highlight errors in 5% of last year's payments

The EU's ability to crack down on fraud and manage its finances came under heavy fire when its Court of Auditors suggested that more than 5 per cent of all payments last year may have involved errors. The report took the EU and European Commission to task over issues ranging from preferential import schemes to over-compensation to farmers through the Common Agricultural Policy. Page 2

Holocaust payouts begin
The Swiss Fund for Needy Victims of the Holocaust presented cheques to 80 Jewish survivors at a ceremony in Riga, Latvia. The fund's assets of \$200m have been donated by business and the Swiss government, and \$11m is available for Holocaust victims in eastern Europe. Page 3

Booming London
London is gripped by a development boom, with arts, heritage, sport and leisure projects worth \$5.6bn (\$9.46bn) planned or under way, according to a new survey. Page 9

Senna verdict next month
Italian judge Antonio Costanzo will give his verdict on the death of racing driver Ayrton Senna in mid-December.

Chubais faces vote
Russia's parliament is to vote on a motion calling for the dismissal of first deputy prime minister Anatoly Chubais, in another attack on the reformist politician and his allies. Page 2; Editorial Comment, Page 13

Holocaust for Israel
The Middle East and North Africa economic conference ended by calling on Israel to exchange land for peace and remove restrictions on the West Bank and Gaza. Page 6

France seeks WFO shake-up
France has tried to jolt its partners in the 10-nation Western European Union into giving fresh impetus to the defence organisation, which plays a secondary role to the Nato alliance. Page 2

Pinochet boosts UK links
Chile's General Augusto Pinochet hopes to boost his country's defence ties with the UK by setting up an arms procurement office in London before stepping down as head of the armed forces in March. Page 5

IMF hails Zimbabwe reforms
An IMF team hailed the austerity package announced on Monday by Zimbabwe's finance minister Herbert Murerwa. Page 6

West End Story
Grosvenor Estate Holdings, the property business of the Duke of Westminster, is offering a portfolio of properties at some of London's grandest addresses in Belgrave and Mayfair in a £50m (\$84.5m) sale. Page 9

Eximbank plan for Russia
The US Export-Import Bank is to break with normal practice by bypassing the Russian government to offer export financing to businesses in Moscow and St Petersburg, with the cities providing repayment guarantees. Page 14; See Lex

Laura Ashley boss goes
UK clothing retailer Laura Ashley has parted company with US-born Ann Iverson, its controversial chief executive, who has failed to halt the group's steady decline. Page 19; Lex, Page 14

Mean profits figure
Jack Benny's violin, an essential part of the miserly comedian's act for more than 40 years, was sold to a US dealer for \$249,900 (\$400,000) at Sotheby's in London.

BUSINESS NEWS

BAe in talks over alliance with Alenia Aerospazio

British Aerospace is in talks with Finmeccanica over a strategic alliance between the UK aerospace group and Alenia Aerospazio, the Italian state holding company's civil and military aircraft division. Page 15; Editorial Comment, Page 13

Alitalia's FF60bn (\$10.5bn) friendly takeover bid for AGF of France could lead to the sale of AMB, the German insurer which is controlled by the two groups. Page 15; Observer, Editorial Comment, Page 13; Lex, Page 14

Palisades, a metal essential for some components of portable electronic equipment, could be in very short supply after 2000. Page 15; Short supply, Page 22

Washington warned Japan that it could face retaliation for failing to implement a WTO judgment to end discriminatory taxation of imported spirits. Page 5

Sabena, the Belgian airline, said it would buy 34 aircraft from Airbus Industrie, the European consortium. Page 5

Walt Disney reported record annual earnings of almost \$2bn, a 25 per cent increase. Page 16

Avon Products, the cosmetics group, warned that economic turmoil in Brazil and elsewhere would dent its profits. Page 18

Japan's construction industry showed more signs of an impending shakeout as several leading companies announced lower than expected first half earnings and cut full-year profit forecasts. Page 15; Results, Page 16

Turkey's economy minister says he plans to sign a unique type of agreement with the IMF. Page 3

Boeing and two of its most senior executives have been accused of securities fraud in class action suits filed in Washington and Pennsylvania. Page 7

US consumer prices edged up in October, in the latest indication that inflationary pressures remain muted. Page 7

Sun Microsystems asked a federal judge to bar Microsoft from using Sun's Java logo on its internet browser software. Page 7; Microsoft, Page 10

Japan's diversified trading companies warned that the economic downturn at home and the impact of currency turmoil in south-east Asia would put pressure on future earnings. Page 17; Ailing banks, Page 14

South Korea is expected to offer a financial stabilisation package in an effort to avoid seeking help from the IMF. Page 4

India's central bank moved to steady a slide in the rupee as it fell to a 21-month low of Rs37.52 to the dollar. Page 4

German state North Rhine Westphalia agreed to sell its 50 per cent holding in Düsseldorf airport to a consortium of Hochtief and Aer Rianta. Page 2

AT&T, the US telecoms group, is in talks with record labels belonging to PolyGram, Time Warner and EMI over a project to deliver their music over the internet. Page 16

Taglieri Nelson AGS, the UK market research company, is buying Sofres of France for FF1.16bn (\$201m) to create Europe's leading and the world's fourth largest market information group. Page 19

Tamagotchi, the virtual pet, boosted profits at Bandai, the Japanese creator, nearly fourfold to a record ¥6.5bn (\$54m) for the first half of the year. Page 14

Mubarak attempts to stamp out militants

Hundreds of tourists evacuated from Luxor

By Mark Huband in Cairo and Scheherazade Daneshkhu in London

Hosni Mubarak, Egypt's president, yesterday underlined the government's determination to eradicate Islamist militant violence by promoting the head of state security to interior minister in the wake of Monday's massacre of 57 foreigners.

Hassan al-Ahli resigned as interior minister after Mr Mubarak publicly blamed him for slack security at the tourist site where the killings took place. Major General Habib al-Adli, the new minister, is likely to be given extensive resources to stamp out armed militants to avert a crisis in Egypt's tourism sector.

Tour operators yesterday evacuated hundreds of tourists on special flights from the southern town of Luxor where up to nine gunmen ambushed the foreigners at a 4,500-year-old temple.

Mr Mubarak yesterday toured the scene of the massacre, for which the militant Gama'a al-Islamiya organisation yesterday claimed responsibility. Mr Mubarak berated security officials at the site, telling them: "This is a tourist region, and you are telling me the police were 2km away. This is a joke."

In a statement, the Gama'a al-Islamiya yesterday threatened more attacks if the government refused to accede to its demands for the introduction of Islamic law, an end to Egypt's diplomatic ties with Israel and the release of the group's spiritual leader who is serving a life prison sentence in the US.

Foreign governments have warned tourists not to visit Luxor. The Swiss government, which has identified between 33 and 40 of the dead as being from Switzerland, has advised its nationals to stay away from Egypt altogether. Japan has advised its nation-

als, 10 of whom were killed in the attack, not to visit southern Egypt.

The British government, which has identified six of the dead as being from the UK, has given the same advice.

"We are not advising that British tourists leave the country, nor are we advising them not to come to Egypt. People should just avoid Luxor," said a spokesman for the British embassy in Cairo.

Thomson, the UK's largest tour operator, said it was flying back all 1,350 of its customers from Egypt in six flights over two days.

At least three airplanes full of Swiss travellers flew to Zurich yesterday from Luxor and Aswan. Kuoni, the Swiss-based tour operator, said it would not operate tours to Luxor until the



Iraqi deputy premier Tariq Aziz meets Russian President Boris Yeltsin before talks in Moscow yesterday. Later Mr Yeltsin said Russian had worked out a plan to end the crisis between Iraq and the United Nations. Report, Page 6

Banks call for revamp of capital adequacy rules

Current risk 'cushion' out of touch with modern practice

By George Graham, Banking Editor

A group of leading international banks is calling for an overhaul of the Basel capital rules - ratios used to determine how much capital a bank needs as a cushion against its credit risks.

The Institute of International Finance, a Washington-based association with 282 members in 56 countries, said the capital adequacy rules agreed in 1988 by the Basle Committee of banking supervisors were increasingly out of touch with modern risk-management practice.

Georges Blum, chairman of the IIF and of Swiss Bank Corporation, said the simplistic Basle ratios required banks to hold exactly the same 8 per cent capital cushion for a less risky loan in a large industrial country as for a riskier loan in an emerging market.

"It is time in my opinion to revisit this rule," he said. "The Basle ratios do differentiate to some extent between different categories of loan. Mortgages carry only half the risk weighting of normal loans. Government debt and interbank deposits carry weightings of between 0 and 20 per cent of normal loans."

Banks are required to hold capital equivalent to 8 per cent of their total risk-weighted assets, with at least half of it in the form of "Tier 1" or pure equity capital.

However, many international banks such as J.P. Morgan and Credit Suisse have developed more sophisticated credit risk models which allow for more shades of grey in weighting loans, and also take account of the effects of diversifying a portfolio.

Bank regulators now allow banks to use similar internal models to calculate how much capital they need to hold as a cushion against their market risks. But regulators want to see more proof that credit risk models really work over the long term.

Charles Dallara, IIF chief executive, said the 1988 rules offered perverse incentives to banks to take on riskier loans. "They encourage banks to go up the yield curve in pursuit of a return on capital," he said. "Those are not the kind of incentives regulators should be wanting."

An IIF study suggests that the build-up of international bank lending to Asian developing economies has been driven more by the pursuit of higher returns than by the capital adequacy rules.

Even so, Mr Blum said loans to riskier countries needed a much higher ratio than today's 8 per cent, but loans to large companies in stable industrial countries could safely be assessed with lower risk weightings than those under the BIS rules.

The Bank of England held a conference last week which discussed alternative approaches to capital adequacy. The Federal Reserve is also examining new capital frameworks.

But the Basle Committee, which comprises bank regulators from the leading industrial nations, would be likely to take years to agree any changes to its capital rules. They have come to be regarded as the benchmark for banks around the world.

Shares in Truistor held by Lord Moyne are frozen

By Tim Burt in Stockholm and Jimmy Burns in London

Leading institutional shareholders in Truistor, the Swedish investment company at the centre of an alleged misappropriation of assets totalling SKr620m (\$82m), have secured a court order freezing SKr100m of Truistor shares held by Lord Moyne.

The 12 shareholders, holding 49.5 per cent of Truistor's capital and 25.5 per cent of the votes, have obtained the court order as security against a damages claim. Proceedings have not yet been issued.

Lord Moyne, a member of the Guinness brewing dynasty, has denied any wrongdoing in his financial dealings at Truistor, where he acquired a controlling stake this summer.

Last night he said: "I do believe there were irregularities but I wasn't part of it."

Two Truistor employees have been arrested on suspicion of instigating or aiding a serious breach of trust against shareholders.

Investigators are thought to have established that Lord Moyne personally gave instructions for the transfer of funds from Truistor's London bank accounts to accounts held in his name. Last night, Lord Moyne said: "I may have put my signature to bits of paper giving instructions of that sort."

Truistor shares were suspended earlier this month following the launch of an Anglo-Swedish fraud inquiry.

Lawyers acting for Truistor's minority shareholders yesterday said the Stockholm district court had upheld their application for some of Lord Moyne's assets in Truistor to be frozen.

Legal action against Lord Moyne, better known as Jonathan Guinness, could follow Truistor's annual meeting next week.

Lord Moyne said he had not yet decided whether to attend, nor when he would step down as chairman and sell his shares as he has promised. "I'll resign when the time is right. I take note that shareholders are demanding it. They won't have to wait for long."

Of the SKr620m missing from Truistor's Swedish accounts, SKr150m has been traced to Barclays in London. Lord Moyne was said to have paid another SKr417m into another Truistor account in Luxembourg.

That transaction is currently the subject of a legal battle in Luxembourg between ITC, described in court documents as a Caymans Island bank, and Truistor. ITC was said to be seeking repayment of the SKr417m, which the document said was lent to Lord Moyne as a short-term loan.

Lord Moyne said he had never heard of ITC. He said he had not personally funded the purchase of a controlling stake in Truistor.

Markets

STOCK MARKET INDICES	
New York: Dow Jones Ind. Av.	7878.22 (+18.48)
NASDAQ Composite	1806.29 (+7.85)
Europe and Far East	
London: FTSE 100	2782.51 (+0.82)
Nikkei	3833.47 (+38.88)
Hong Kong: Hang Seng	4045.0 (-21.8)
Asia: Nikkei	15,726.57 (+44.28)
US LONG-TERM RATES	
Federal Funds	5.75%
3-mth Treasury Bill	5.20%
Long Bond	100%
Yield	6.07%
OTHER RATES	
UK: 3-mth interest	7.75%
UK: 10 yr bond	104.2813 (104.241)
France: 10 yr OAT	98.38 (98.40)
Germany: 10 yr Bund	103.10 (103.11)
Japan: 10 yr JGB	103.05 (103.04)
NORTH SEA OIL (Average)	
Brent Index	\$18.475 (18.35)

GOLD	
New York: Gold	\$307.0 (307.1)
London: Gold	\$306.45 (306.65)
EXCHANGE RATES	
New York: London	1.69475
DM	1.72025
¥	1.7175
FF	1.40375
Sfr	1.25.30
£	1.8941 (1.8925)
DM	1.7222 (1.7238)
FF	1.4037 (1.4052)
Sfr	1.25.725 (1.25.77)
¥	1.72.54 (1.72.54)
Telco class	
Swiss	2.9227 (2.9247)

© THE FINANCIAL TIMES LIMITED 1997 No. 33,452
London • Leeds • Paris • Frankfurt • Stockholm • Madrid • New York
Los Angeles • Tokyo • Hong Kong



This announcement appears as a matter of record only

£145,000,000

INSTITUTIONAL FUNDING FOR

AM PAPER GROUP

Structured, Led and Equity Underwritten by
HSBC Private Equity

Debt Facilities Arranged and Underwritten by
J P Morgan Securities Ltd (Arranger)
Credit Suisse First Boston

Advisers
Latham Crossley & Davis
Pinsent Curtis

HSBC Private Equity
Member HSBC Group

HSBC Private Equity Europe Limited
Vinners Place, 68 Upper Thames Street, London EC4V 3BJ
Tel: 0171 336 9955 Fax: 0171 336 9961
REGULATED BY IMRO

NEWS: EUROPE

Auditors criticise Commission over import schemes and over-compensation of farmers

EU told of errors in 5% of its payments

By Michael Smith in Strasbourg

The European Union's ability to fight fraud and manage its finances came under heavy fire yesterday, as its Court of Auditors suggested that more than 5 per cent of all payments last year may have involved errors.

Bernhard Friedmann, president, said that because of the volume of errors, his court was "unable to give an affirmative statement regarding the legality and

regularity of the transactions underlying payments". He stressed, however, that overall, the 1996 accounts gave an accurate view of the revenue and expenditure.

Yesterday's report took the EU and the European Commission, the union's executive, to task over a range of issues from the administration of preferential import schemes to apparent over-compensation to farmers through the Common Agricultural Policy.

The court found that in 1995-96 alone, cereal farmers

were paid Ecu3bn (\$3.4bn) more than was necessary to compensate them for previous reductions in CAP support prices. Mr Friedmann said he was concerned that there was no provision in the CAP for reducing subsidies to farmers in line with rising world prices.

The Commission welcomed the report and said it agreed with the court about the over-compensation of cereal farmers. But while it had funded to reduce aid payments, neither member countries nor parliament

had accepted its proposals. The UK said it would treat the reduction of fraud and waste as a prime aim in its six-month presidency of the EU, which begins in January. "This report makes disturbing reading, but it is a useful tool in the fight against fraud and mismanagement," said Helen Liddell, treasury minister.

The court's report for 1996 is the latest in a series of critical annual assessments. Although the error rate of 5.4 per cent is less than the previous year's 5.9 per cent,

court members said the statistical method they used - by taking samples - would not enable the EU to claim an improvement unless it was shown to be part of a consistent trend.

In addition, the percentage of cases for which it was impossible to make an audit assessment had risen from 2.3 to 4.3 per cent.

The court said that almost all chapters of its 417-page report include observations on administration and control weaknesses which demonstrated that the develop-

ment of accounting and financial management has failed to keep pace with an expansion of activities.

"The Commission's handling of expenditure which it manages directly is also revealed to be unsatisfactory in many ways," it said.

Mr Friedmann highlighted a preferential trade scheme where the court established that the volume of orange juice imported into the EU from one non-member country was three times that country's potential for orange production.

Tax aid schemes to be curbed

By Emma Tucker in Brussels

The European Commission yesterday signalled its intention to crack down on special tax regimes adopted by member states to lure business investment, because of fears that they distort the single market.

With schemes such as Ireland's special 10 per cent corporation tax for manufacturing industries in mind, Karel Van Miert, the competition commissioner, has proposed a thorough review of the regimes.

The countries likely to be most affected include Ireland, Spain, which is sensitive about the tax status of the Canary Islands, and Belgium and the Netherlands, which have special regimes for multinational companies.

However, virtually all the member states have some special tax arrangements, mainly to attract inward investment. Brussels has to decide whether the regimes amount to state subsidies, and therefore breach EU rules on fair competition. It is likely to draw up a framework, giving its interpretation of the law, to which member states would have to signal their agreement. Members which did not comply could be taken to court.

The issue is extremely sensitive but support for co-ordinated action is growing. Many member states now believe that the benefits of a general crackdown would outweigh losses incurred through the dismantling of their own schemes.

"We want to see fiscal aids cracked down on," said an EU diplomat. "There is a body of support for action." Germany and France are particularly keen for action ahead of economic and monetary union in 1999, when competition between member states will intensify.

The debate heated up earlier this year when Renault, the French carmaker, chose to relocate from high-tax Belgium to Spain, which offers more favourable fiscal conditions.

Complaints about Ireland's special tax regime have also intensified. Mr Van Miert believes the country's 10 per cent regime - offered to all internationally traded manufacturing industries - amounts to a state subsidy.

Ireland plans to introduce a uniform 12.5 per cent corporate tax rate as a solution to the problem. This would make it difficult for the Commission to act as it can ban special regimes only if they discriminate in favour of certain sectors. However, Dublin and Brussels are in dispute over the timing. Ireland wants to bring in the new regime in 2010 when the 10 per cent regime expires.

Commission to escape BSE censure

By Michael Smith

A nine-month threat of parliamentary censure hanging over the European Commission seems certain to be lifted today in spite of lingering misgivings among MEPs over its handling of the crisis over BSE or "mad cow disease".

Although barbed critics were yesterday still attempting to find the 63 signatures necessary to propose a censure in the European Parliament today, the main political parties had already decided to support the Commission if a vote took place.

Their backing follows a series of concessions by the Commission, which was given time to change its

policies when it was first threatened with a vote to sack it earlier this year. Commissioners agreed yesterday to back parliamentary calls for a fund for victims of a new strain of Creutzfeldt-Jakob Disease, a human illness linked to BSE.

Jacques Santer, Commission president, told MEPs that the families of victims "deserve our support". Commission officials said that any final decision on finances would have to be made by member states.

In a debate on the Commission's conduct over BSE, Dagmar Roth-Behrendt, who chairs a BSE parliamentary committee, said that she would not have believed six months ago that the Commission could have

made such progress on issues including the introduction of more transparency into food policy-making processes and the improvement of plans for new legislation to improve food quality control and the separation of monitoring and legislative functions in food policy.

However, it criticised the Commission for failing to take action against the UK. The committee wanted Britain to pay for some of the funding earmarked to eradicate BSE.

The committee would also have liked action to have been taken against some officials in the agriculture directorate and against some former and some current commis-

sioners of the majority Socialist group.

A report by the BSE committee noted the Commission's progress in most areas of concern, praising plans for new legislation to improve food quality control and the separation of monitoring and legislative functions in food policy.

However, it criticised the Commission for failing to take action against the UK. The committee wanted Britain to pay for some of the funding earmarked to eradicate BSE.

The committee would also have liked action to have been taken against some officials in the agriculture directorate and against some former and some current commis-

Communists drop orthodoxy to face an uncertain future

With uncanny timing the death of Georges Marchais, the former French Communist leader, has occurred at the very moment when the party is discarding the orthodox ideals he imposed for almost a quarter of a century.

The party's reaction to his death on Sunday could not but reflect this awkward coincidence. Though fulsome on his personal qualities, a statement from the national executive avoided any judgement on Marchais' role in history as the last of western Europe's major Communist figures to distance themselves from Stalinism.

His unrepentant views were an increasing embarrassment to Robert Hue, who succeeded him in 1995. Not least, Marchais opposed the present leadership's crucial decision last May to be a minor partner in Lionel Jospin's government.

Mr Hue decided that despite substantial policy differences with the Socialist premier, staying out of government risked putting the party on a path to electoral oblivion. Under Marchais the party's share of the vote had dropped from just over 21 per cent to almost 9 per cent and it increasingly appealed to an ageing sector of the electorate.

Marchais' declining influence was highlighted earlier this month when he intervened in a debate on whether the party should change its name and whether L'Humanité, its daily newspaper, should scrap the hammer and sickle as its logo. The newspaper published an "interview" with his objections but then let it be known that it had not in fact bothered to interview Marchais himself but had contributed both the questions and answers.

The party's new direction was endorsed only 24 hours before Marchais' death, at the close of a special two-day mini-congress staged by Mr Hue to assess the party's first five months as partners



Hue (left) embraces Marchais after succeeding him. The former leader's views later became an embarrassment.

in government. All save a few old hardliners dissented from the general applause for an ebullient Mr Hue. "Without diluting our identity, we have shown we can make a positive contribution to government," Mr Hue said afterwards.

The presence of a Communist transport minister, he believed, helped resolve the complex pay claims that provoked a truckers' strike earlier this month. Mr Hue also said their weight had been felt in the debate on cuts in the 1998 defence budget, wringing pledges on job protection and industrial reconversion. Originally the 36 Communist deputies had threatened to bring down the government by voting against the defence bill.

Mr Jospin has carefully

humoured his Communist allies and, when most needed, given a helping hand to Mr Hue. The premier came to his rescue last week in a storm over a recently published book - *La Ligne Noire du Communisme* (The Black Book of Communism). Written by a group of academics, the book's introduction equates the evils of communism with those of Nazism, while the bulk of the text reveals the horrors in the Soviet Union that the French Communists long-ignored.

In a parliamentary question from the rightwing opposition prompted by the book, Mr Jospin refused to blame the past sins of communism on his present allies. Instead he said he was "proud" to have them as partners even if they had been slow in admitting past errors.

Mr Jospin's help in letting the Communists off the hook will not come free. It will give him ammunition to force the Communists into line on a number of pending issues. The most sensitive area is likely to be the various policy decisions that will have to be made over the coming months for France to be included in the core group in the euro-zone.

The Communists share Mr Jospin's desire to see the EU do more about tackling unemployment and provide a social balance to the Maastricht treaty.

But their enormous doubts about the euro will not disappear easily. "It will be a source of confrontation between us and the government," Mr Hue said last week. "We still believe there should be a referendum and we will press for this."

If the Communists give way further on the euro, their identity will become ever more amorphous inside the left dominated by the Socialists. Unless Mr Jospin begins to make mistakes, they may have no alternative.

Robert Graham

France seeks bigger WEU role

By David Buchan, Diplomatic Editor

France yesterday tried to jolt its partners in the 10-nation Western European Union (WEU) into giving fresh impetus to the organisation, which plays a secondary role to the Nato alliance.

Hubert Védrine, the French foreign minister, suggested to fellow ministers at the WEU's six-monthly meeting at Erfurt in Germany yesterday that their defence organisation could not go on as it was. "We can watch it getting a second wind," he said.

He reminded members that the 1948 Treaty of Brussels gave them the right to leave the WEU after its 50th anniversary next year, and even hinted that some members should do so if they were not ready to see a more ambitious role for it.

The Erfurt meeting also pledged support for turning the present four-nation armsaments agency, grouping Germany, France, Britain and Italy, into a wider European body, arguing that this would "encourage European defence industries to form associations with each other".

Mr Védrine's intervention reflects France's frustration that, in the wake of its decision earlier this year not to re-integrate its forces into Nato, it has been forced back on the WEU as the main focus of its efforts to create a European defence identity.

France decided to keep its forces out of the Nato military after the US refused to hand over the Nato southern command to a European officer and after the Socialist government came to power in Paris this summer.

Mr Védrine complained that, because Britain and Germany objected, the WEU had not been able to agree to mount its own peacekeeping operation in Albania this year but sent instead only "a police mission" headed by a French gendarme, though some WEU members, led by Italy, took their own initiative to send troops.

WEU ministers agreed yesterday to extend their police mission in Albania. But they also said they would consider Mr Védrine's suggestion that the WEU should follow the European Union in allowing a "constructive opt-out".

In a new relationship with Nato agreed in 1994, the WEU's main activity is to carry out the planning of possible Europe-only operations using Nato equipment and forces. In fact, WEU officials believe that this more modest role for their organisation gives it a long-sought credibility.

As a WEU official said recently, "the WEU now has a slot in planning for Nato, but this is only possible if people like the French do not still conceive of it as the embryonic defence of Europe".

NEWS DIGEST

France in move on UK and ECB

Britain's place in the inner sanctum of the future European Central Bank (ECB) may be kept warm by a smaller European Union member state until the UK joins the euro, according to a French minister.

Pierre Moscovici, European affairs minister, made the suggestion in a Financial Times interview in Paris yesterday. His comments came about 10 days after Jacques Chirac, the French president, and Lionel Jospin, the prime minister, said Britain should have a representative on the bank's six-member executive board "as soon as it joins the euro". France thus publicly lined up with a proposal by Helmut Kohl, the German chancellor, that a seat at the ECB should be reserved for Britain.

Asked how the proposal might be implemented in practice, Mr Moscovici replied: "In practice, what that could mean is that the seat would be occupied by another country, not one of the bigger countries, for a determined period of perhaps four years, before the baton was passed on to the UK." He added that it was "not a good idea to leave the seat vacant". Mr Kohl initially indicated he was ready to keep a seat vacant, making it easier for the UK to make a late entry into the European single currency. *David Owen and Andrew Jack, Paris*

STATE AID

Commission resolves VW row

One of the most controversial disputes between the European Commission and Germany was yesterday brought to a formal close, when Brussels agreed to allow DM36m (\$57m) of state aid to be paid to a Volkswagen plant in the state of Hesse.

The decision was taken after the German authorities agreed to recover a separate amount of DM90m of state aid paid unlawfully last year to VW in Saxony. Last year the Saxony authorities flouted a Commission ruling that the state aid breached Treaty rules, and channelled it to the car plant anyway. The Commission refused to take any further decisions regarding aid to VW until the aid was paid back.

The DM90m of aid destined for the Hesse plants is part of a DM566m investment by VW to launch a new type of automatic gear box. The Commission has also decided to investigate aid paid by the Spanish authorities to Daewoo, the Korean company, which is building a refrigerator plant in Vitoria. Other companies have complained that the creation of new production capacity, helped by state subsidies, will lead to the closure of other plants in Europe. *Emma Tucker, Brussels*

PRIVATISATION

Düsseldorf airport deal

The first part-privatisation of a German airport was sealed yesterday, when the state of North Rhine-Westphalia agreed to sell its 50 per cent holding in Düsseldorf airport to a consortium of Rottier, the construction subsidiary of the RWE group, and Aer Rianta, the Irish airport manager.

The remaining 50 per cent will continue to be held by Düsseldorf city, which has to give its formal approval to the DM330m (\$306m) deal next month.

Düsseldorf airport was badly damaged by fire in April last year and the cost of its rebuilding and expansion has been put at around DM2bn. Wolfgang Clement, state economics minister, said the successful bidders combined international airport experience and a strong financial position. However, the sale to Rottier and Aer Rianta has been controversial because the state earlier designated a rival consortium, comprising the Dortmund-based Harpen group and Airport Group International of the US, as "preferred bidder".

Mr Clement said yesterday the state would now press ahead with privatising its 30 per cent stake in the nearby Cologne-Bonn airport. *Peter Norman, Bonn*

BONN RESHUFFLE

Oswald given building role

Eduard Oswald, a parliamentarian from the Bavarian Christian Social Union (CSU), was yesterday nominated as building minister in the Bonn cabinet.

He will take the place of Klaus Töpper, who has been offered the job of heading the United Nations environment programme in Nairobi. The chancellery announcement that Mr Oswald, 50, will replace Mr Töpper, a Christian Democrat, from January means the CSU will keep four cabinet posts after the impending abolition of the post and telecommunications ministry and the retirement of Wolfgang Borchers, its minister.

Yesterday's news that the CSU was maintaining its presence in Bonn should have given Theo Waigel, finance minister and CSU leader, a boost before the party's annual congress on Friday. However, the image of a smooth handover was upset when Mr Borchers, 58, announced he would no longer be a candidate for the party's governing board, apparently in anger at not being given the building ministry. *Peter Norman*

FRENCH JOURNALISTS' STRIKE

Fight to keep tax privileges

French journalists yesterday staged a 24-hour strike in a last ditch attempt to persuade the Jospin government to shelve plans to end their tax privileges. The measures are part of the government's efforts towards budgetary austerity.

The government is proposing to phase out journalists' 30 per cent tax allowance, which is traditionally applied on the basis of professional expenses incurred. Several professional bodies have accumulated special tax privileges over the years that the government is now seeking to end. Journalists are among the most vocal groups, and in 1996 staged off a previous effort to bring them into line. Yesterday, Lionel Jospin, the prime minister, received a journalists' delegation. But he is understood to have said the matter is up to parliament. The journalists' move comes when the 1996 budget is all but finalised. *Robert Graham, Paris*

DISCO BOMBING

Five go on trial in Berlin

The trial opened yesterday of five people accused of being responsible for the 1986 bombing of the La Belle disco in West Berlin.

The bombing, in which three people were killed and more than 200 wounded, was believed to have been ordered by the Libyan authorities and prompted reprisal attacks on Libya by the US Air Force. Two Americans died in the bombing of La Belle, which was popular with US troops stationed in West Berlin.

The prosecution claims that the accused, three men and two women, organised the bombing through the Libyan embassy in East Berlin. The prosecution case is supported by information gathered by the East German secret police force, the Stasi, which came to light after German unification in 1990.

The Stasi is believed to have been aware that an attack was being planned. Shortly after the bombing US intelligence claimed to have intercepted wireless messages from the Libyan embassy in East Berlin claiming success for the bombing. The trial, which after a short hearing was adjourned until next week, is expected to last until July 1998. *Frederick Steinhilber, Berlin*

FINANCIAL TIMES
Published by The Financial Times (Europe) GmbH, Nishengasse 1, 10318 Frankfurt am Main, Germany. Telephone +49 69 156 530. Fax +49 69 156 4481. Registered in Frankfurt by J. Walter Brand, Wilhelm J. Brand, Colin A. Kennedy as Geschäftsführer and in London by David C.M. Bell, Chairman, and Alan C. Miller, Deputy Chairman. The shareholders of the Financial Times (Europe) GmbH is Pearson Overseas Holdings Limited, 3 Burlington Gardens, London, W1T 1LE. Shareholder of this company is Pearson plc, registered at the same address. GERMANY: Responsible for Advertising content: Colin A. Kennedy. Printer: Hiltner International Verlagsgesellschaft mbH, Adenau-Rosenstraße 36, 63363 Neu Isenhardt. ISSN 0174 7363. Responsible Editor: Richard Lambert, c/o The Financial Times Limited, Number One Southbank Bridge, London SE1 9HL. FRANCE: Publishing Director: P. Marzaglio, 42 Rue de la Bourse, 75008 PARIS. Telephone: (01) 576 8254. Fax: (01) 576 8253. Printer: S.A. Nord Edit, 1521 Rue de Caen, F-91010 Rodanville Cedex 1. Editor: Richard Lambert. ISSN 1148-2753. Consensus Publisher No 678002. SWEDEN: Responsible Publisher: Hugh Cargill 468 618 6088. Printer: AB Kallundagrens Expressen, PO Box 6007, S-530 06, Jönköping. © The Financial Times Limited 1997. Editor: Richard Lambert, c/o The Financial Times Limited, Number One Southbank Bridge, London SE1 9HL.

Interim deal lets two rival digital TV ventures share selected broadcasts for rest of season

Truce in Spain's 'pay-per-view' football war

By David White in Madrid

An armistice has been declared in Spain's war over "pay-per-view" broadcasts of football matches, a core business for the country's two rival digital television ventures.

Deadlock over broadcast rights for Spanish league and cup ties has meant neither venture has transmitted "pay-per-view" matches since the second company, Via Digital, started broadcasting over two months ago.

Under an interim deal, they are now set to share selected soccer

broadcasts for the rest of the season. Subscribers have the prospect of seeing the same pictures of the same match at the same price on either of the networks.

Battle-lines were drawn 11 months ago, when three TV companies agreed to pool the rights they had signed with top Spanish clubs in a joint venture, Audiovisual Sport. The partners were the private Antena 3 station, Catalonia's TV8 regional network and Sogecable, which runs Canal Plus pay-TV in Spain.

Sogecable's main shareholder, alongside Canal Plus of France, is

the Prisa group, publisher of the daily El País. Its digital network, Canal Satellite Digital, has been broadcasting since January amid a regulatory tussle with the government.

Up to the summer, it was offering its subscribers exclusive football, having paid Ptas15bn (\$102.7m) to the shareholders of Audiovisual Sport for pay-per-view rights up to the 2002-3 season.

Everything changed in July when Telefonía, the telecoms group, bought the controlling stake in Antena 3. Telefonía is

the main shareholder in Via Digital, along with the state-run RTVE broadcasting authority and other partners.

It asserted its claim to Antena 3's former rights, covering half Spain's star-studded first division, including the two big Madrid sides Real Madrid and Atlético.

While Canal Satellite Digital's contract appeared clear cut from the 1989-9 season onwards, confusion reigned about who held what rights for 1997-8. The original rights come under a previous agreement with Forta, a grouping of regional TV stations.

On the first day of the new season, Canal Satellite Digital set out to show three matches. It succeeded in showing only one. At Mallorca's stadium, club officials intercepted its cameramen and disconnected their power cables.

Peace talks broke off when Via Digital decided to broadcast a Sunday match earlier this month - without charging for it. In the event, a transmission hitch meant many subscribers got a blank screen.

A truce has now been reached through the good offices of Jesús Gil y Gil, the ebullient Atlético

chairman, nominated as mediator by Spain's Professional Football League. The TV companies are to keep their Audiovisual Sport partnership going for the time being, to provide shared broadcasts.

But they did not settle the question of who owns the "pay-per-view" rights, which is to go to arbitration. A deal for Via Digital to show football for the next five seasons has still to be negotiated. "I hope this peace is definitive," Pedro Pérez, Via Digital chairman, said yesterday. But another senior television executive said it was "not peace, but a ceasefire".

Swiss fund pays Jewish survivors

By Matej Vipotnik in Riga

The Swiss Fund for Needy Victims of the Holocaust yesterday presented cheques for \$400 to 80 Jewish survivors at a ceremony in Riga, Latvia.

The event was the first time the fund, which was created in February after a row about dormant Swiss bank accounts dating back to the second world war, had made contributions to Holocaust survivors.

The fund's assets of \$200m have been donated by the Swiss government and by business. Some \$11m is available for Holocaust victims in eastern Europe, although the money is only beginning to be paid out.

The fund will not compensate the holders of dormant accounts and is unrelated to the proposed Swiss Foundation for Solidarity which will disburse funds to victims of genocide, torture and other human rights violations.

The \$400 cheques presented yesterday were the first instalments of a total of \$1,000 to be given to each survivor.

Though pleased with the contributions, the recipients, many of whom receive limited financial support from the local Jewish community, were generally perplexed by the Swiss origin of the money and by its limited life-span.

"What we need is a monthly payment, and it should come from Germany, not from Switzerland," said Jane Borovska, a survivor. After the second world war, Germany paid compensation for victims of war directly to the Soviet government, which never distributed the money.

Negotiations aimed at reaching a new compensation settlement are under way between the German government and Jewish organisations.

The Latvian government indicated that steps would be taken to help the survivors financially.

Turks sense time is running out over European ambitions

Ankara is threatening to go its own way if there is no progress on EU membership

Over dinner at the European Union summit in Luxembourg tomorrow, heads of state and government will have to face a difficult but familiar issue: how to deal with Turkey's unwelcome demand for inclusion in the EU enlargement process.

The issue has become increasingly thorny in recent months, which is why it has appeared on the agenda of what is supposed to be a "jobs" summit.

Anti-European opinion in Turkey is hardening over what is considered to be anti-Turkish discrimination and a one-sided trade relationship.

Turkey's ostensibly pro-European government is warning that without a solid prospect of future membership, the country may go its own way in political and security as well as trade arrangements.

Recently the talk has become more inflammatory. Last week, İsmet Çelebi, trade minister, said: "If we are not included in the EU's expansion process, I will impose non-tariff barriers on [EU] goods. For as long as I have the power, I will do

this. Legally we have the right."

Later, a group of unidentified generals told the Turkish Daily News, an English language newspaper, that "Europe has [excluded] Turkey... [It] indicates there is going to be

imbalance in Europe's favour. Mesut Yilmaz, the prime minister, whose decision to scale back Turkey's previous unrealistic demands for immediate membership won support in the EU, has remained silent.

Turkey's economy minister says he plans to sign a unique type of agreement with the International Monetary Fund to help build international confidence in the country's economy, writes John Barham in Ankara.

Günay Taner said yesterday the agreement would not be a "stand-by, but a unique deal that might become a model for developing countries". He gave no details but added that an understanding might be reached in one month.

Ministers hope that IMF support for their three-year economic strategy would help lower Turkey's high borrowing costs in local and international markets. Turkey has complied with few of the 18 standby agreement loans worth \$4.25bn it has signed with the IMF in the last 50 years.

a new division in Europe, a western curtain against Turkey."

European officials caution that tomorrow's talks will only help leaders "narrow the options" at next month's Luxembourg summit, where they will decide which countries should be considered as future candidates and how the EU should help them prepare for

the government has also agreed to modify the insolvent state social security system - which is expected to post a \$4.31bn deficit this year - by raising the minimum retirement age for men to 55 years from 43 years.

Reforming the social security system would be an important step to stabilising public finances and cutting inflation of 83 per cent, but analysts were disappointed at the government's timid changes.

They were also alarmed at government plans to fund a new unemployment scheme with revenues from planned privatisations worth \$4bn this year and \$10bn in 1998. Ministers originally said they would use privatisation revenues to retire debt.

European officials caution that tomorrow's talks will only help leaders "narrow the options" at next month's Luxembourg summit, where they will decide which countries should be considered as future candidates and how the EU should help them prepare for

the government has also agreed to modify the insolvent state social security system - which is expected to post a \$4.31bn deficit this year - by raising the minimum retirement age for men to 55 years from 43 years.

Reforming the social security system would be an important step to stabilising public finances and cutting inflation of 83 per cent, but analysts were disappointed at the government's timid changes.

see customs union as an inferior alternative, rather than a stepping stone to membership.

In July the Commission decided to exclude Turkey from its list of six countries invited to open membership negotiations. Next month's summit will decide whether to invite Turkey to a proposed "European Conference" of present and future EU members.

However, even this is controversial - hence the discussions at tomorrow's jobs summit.

Both Germany and Greece, Turkey's ancestral enemy, oppose encouraging Turkish membership in anything but the very long term.

Greece has also blocked financial aid promised under the customs union agreement.

Scandinavian countries feel Ankara should improve its human rights record.

Most other governments believe that including Turkey in the conference would encourage it to meet membership criteria.

Turkish officials would welcome participation in the conference if it included a pre-accession strategy to

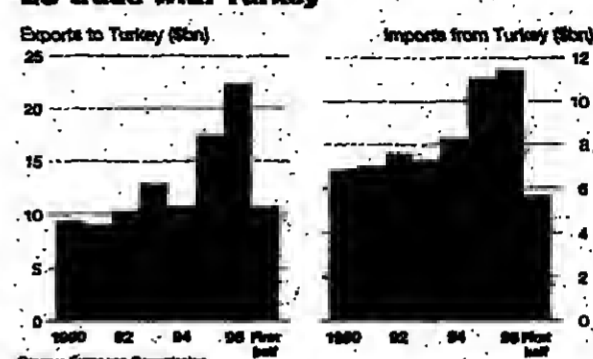
help Turkey prepare for entry. A senior European official said: "Turkey feels frustrated because the rules for entry do not conform to the way Turkey is at the moment. The question is, [does Turkey] want to move forward or continue being the Turkey it is today?"

As things stand today, Turkey does not fully meet any of the EU's membership criteria laid down at the 1993 Copenhagen summit. Its economy is racked by 80 per cent inflation and an unconstructed public sector.

In June, the military forced the elected Islamist-led coalition of Necmettin Erbakan from government in a "soft coup". The state snubbed Kurdish minority rights and is accused of widespread human rights violations.

However, European leaders realise that mishandling Turkey now could jeopardise the

EU trade with Turkey



Source: European Commission

renunciation of Cyprus, divided since Turkey's 1974 invasion.

Ankara has said that it will begin integrating the Turkish Cypriot northern sector with the mainland if the Greek Cypriot government opens EU membership talks next March as scheduled.

Additionally, Turkey's secularist establishment frequently warns that excluding Turkey from enlargement would only encourage militant Islam.

But, paradoxically, Turkey's embattled Islamists have dropped their shrill anti-European rhetoric. Abdullah Gül, a moderate Islamist MP, said his Welfare party supported Turkish EU entry, with the hope that membership would prevent another "soft coup" and block government attempts to proscribe the party ever again.

John Barham



Malawi in 20 minutes flat.

It was something of an emergency: A London businessman needed to fly to Malawi at a moment's notice.

He had got hold of his passport. He had got his hands on an air ticket. But he had no grasp of the political climate that awaited him.

He turned to us, the Economist Intelligence Unit, for help.

And minutes later, a copy of the appropriate EIU Country Report was sped to him through the traffic by cycle courier.

Malawi is just one of the 180 countries whose economy, industry and government we monitor quarterly.

Our findings are based on the regular submissions that we receive

from a global network of more than 500 intelligence-gatherers.

Their analysis of the situation is rigorously checked for accuracy and impartiality by our own regional experts.

It is then edited into a common format that provides an honest appraisal of each country which outlines the political and economic prospects for those doing business there.

For more details, simply telephone Jan Frost in our London office on (44-171) 830 1007, or visit our website at <http://www.eiu.com>.

Whether you are relaxed about delivery or in a rush, she will set the relevant wheels in motion.

The Economist Intelligence Unit

NEWS: ASIA-PACIFIC

Airing the unmentionable... aid for Japan banks

The comment might have been off-the-cuff, if indeed it meant what it was understood to mean. But when the Japanese media yesterday reported that Ryutaro Hashimoto, Japan's prime minister, had been considering using public money to help Japan's banks, it electrified the markets.

As one trader said: "Some people were scrambling to buy bank shares - it was quite a change from last week."

The reason for the excitement was clear. As Japan's financial problems have mounted in recent years, the government has insisted that it would not use public money to bail out banks.

bank collapses - could be covered by an industry insurance scheme known as the Deposit Insurance Corporation. This is financed through a quasi "tax" on bank deposits.

But now there are hints of a shift. With the financial sector now looking more shaky than ever, parts of the ruling Liberal Democratic party have started to propose the hitherto unmentionable - public funds to stabilise the financial system.

While Toku Yamazaki, the party's policy head, was explicit about it, Mr Hashimoto found it necessary later in the day to deny the remark attributed to him. Jiji news agency quoted him as saying: "I have never said that public funds would be used. Please do not misunderstand me."

In an earlier report, Jiji said Mr Hashimoto had responded to a question about what he thought about the use of public funds to help banks deal with their problems by saying: "We will hold an economic ministers' meeting now with those issues in mind."

Though some banking analysts remain deeply cynical about whether the idea would actually gain support, the suggestions are provoking a wave of discussion within the Bank of Japan and finance ministry.

There are two main proposals around. One would aim to improve the way that bank collapses are handled by increasing the funds in the DIC. This could be done through a rise in the banking levy or new infusion of funds.

This idea is strongly opposed in parts of the finance ministry. However, some officials also recognise that the DIC could come under further strain if there were more collapses, like that of Hokkaido Tokai bank on Monday.

The current DIC scheme will collect some ¥2,700bn (\$21.3bn) in the next five years, but has already spent some ¥1,400bn of this.

The second idea would aim to help banks even before they fail, by establishing a government agency to purchase preferential shares in banks. This would allow them to strengthen their capital base.

This option could prevent a looming credit crunch for Japan's industry: some banks are cutting their lending to companies now because their capital-to-assets ratio is low.

It would also help solve an immediate problem: although Hokkaido Tokai bank operations will be taken over by North Pacific, this second bank is small, and urgently needs to raise

its own capital base. But it could also run into serious opposition. Some officials fear the scheme would create a severe "moral hazard". Furthermore, it is unclear where the funds might emerge from.

Given this, few officials expect any rapid decision. Indeed, some banking analysts think the concept will eventually die.

But with the LDP due to present a package of economic proposals next month, the proposals are unlikely to vanish quickly either. As one senior government official says: "The positive reaction of the stock market may mean that the government will have to do something. Otherwise there could be real disappointment."

Gillian Tett

Long-term focus for reforms

By Gillian Tett in Tokyo

The package of 120 measures unveiled yesterday by Japan's Economic Planning Agency (EPA) centred on structural changes such as deregulation in telecommunications, the financial industry and transport sectors.

The reforms were similar to proposals made earlier this month by the ruling Liberal Democratic party. Most were announced earlier this year.

The EPA yesterday argued that the measures could provide a significant boost to the economy in the medium to long term, adding some ¥60,000bn (\$477bn) of demand over the next decade to gross domestic product (which is currently around ¥500,000bn).

Government officials argued that the style of the package, which focuses on longer-term structural change rather than short-term boosts, marked a shift

in the government stance. In particular, the government now recognised that the type of fiscal "jumps" made in 1985 were no longer providing a satisfactory solution.

One plank of yesterday's package centred on moves to boost the property market by lifting regulations on land use and facilitating real estate securitisation. Another element was construction of a new airport.

China's light touch soothes HK's pain

The two-system formula is still intact, write John Ridding and Simon Davies

No sooner had Donald Tsang seen Hong Kong's economy through the shoals of transition to Chinese sovereignty than a storm blew in from the opposite direction, battering the territory's financial markets and posing an immediate test for the post-colonial administration.

Now, Hong Kong's financial secretary sees the "tail end of the turmoil", referring to the typhoon of currency and stock market assaults. Though many are less sanguine, citing several false dawns and the risk that South Korea will add a vicious twist to the cycle of upheaval, Mr Tsang is charting the way forward for the territory and for regional monetary co-operation in the wake of the crisis.

For Hong Kong, claims Mr Tsang, the lessons are largely positive. "There was an earthquake out there, but we came out better than the others," says the financial secretary. The exchange rate system emerged intact from its "first real live test", he adds, while China displayed the light touch promised in the "one country, two systems" formula which underpins the handover.

"I was pleasantly surprised by the way China behaved," says Mr Tsang. "For that whole week there was not one telephone call, fax or instruction," he said, referring to the week the Hang Seng stock market index fell almost 25 per cent between Monday and Friday. He made the first contact, calling the finance ministry in Beijing the next Tuesday, to discuss what was happening in mainland China.

"I was pleasantly surprised by the way China behaved... there was not one telephone call, fax or instruction"

regime, the financial secretary says any alternative would be worse.

When China's currency - the yuan, or renminbi - is fully convertible, says Mr Tsang, there may be an opportunity to reconsider. "But I do not contemplate a change in the link in my own working career," he adds. At 53, he has seven more years before retirement under the new government pension scheme.



Tsang at the helm: charting the economic way forward

As for the economic costs, the financial secretary rejects private sector predictions that growth in gross domestic product will fall to 3 per cent or even lower next year. Though he has yet to make revisions to official forecasts, Mr Tsang says he would be surprised if growth fell much below the trend rate of 5 per cent.

Many are more pessimistic. Peregrine Securities, which has just downgraded growth forecasts for 1998 from 4.7 per cent to 2.7 per cent, warns of the impact on property, banking and retail sectors of continued high interest rates. Others struggle to find engines of growth.

Mr Tsang counters by pointing to the momentum within the economy and the fact that with 84 per cent of output coming from services, the territory is relatively protected from the impact of regional devaluations. China, he says, will continue to drive growth. He would not, however, welcome a devaluation to maintain China's export drive. "It would not put pressure on the Hong Kong peg, but it would prolong Asia's agony."

Easing Asia's agony, he says, might require a regional facility to support structural reforms. But Mr Tsang balks at the idea that emerged during September's IMF/World Bank meeting of an Asian fund, managed in the region. "To me, discipline is crucial. I would not back a scheme which implies inferior standards," he says. "I have lots of confidence in the IMF regime."

Part of the problem with an Asian-managed fund, he believes, lies in the political sphere. "I don't see how friendly neighbours can impose draconian rules on each other," says Mr Tsang. "For a fund to be applied effectively it needs to be run by someone strong enough to defy national politics." An Asian fund has a role, he believes, but only if it is consistent with the IMF. "They are the international financial strong man," he insists.

Renong deal hits Malaysia shares

By James Kynge in Singapore

An extraordinary deal which appeared devised to bail out the business arm of Malaysia's ruling political party yesterday drove share prices in Kuala Lumpur to their lowest level in more than four years and depressed the ringgit.

News that UEM, a stock favoured by foreign investors, had borrowed some \$2.4bn (US\$724m) to buy a 32.6 per cent stake in its parent company, Renong, one of Malaysia's top companies, at a hefty premium to the market price, stunned many investors.

"The fact that this happened probably means that there are more bail-outs down the road," said Chong Yoon Chon, investment manager at Aberdeen Asset Management in Singapore.

Renong is in effect controlled by the United Malays National Organisation, the party of Mahatir Mohamad, the prime minister. It is the nation's top infrastructure company and is leading a drive to build two new cities, Putrajaya for MS20bn and Cyberjaya for \$510bn, near Kuala Lumpur. Without Renong, the vision of Dr Mahatir for Malaysia to attain developed status by 2020 would be in tatters.

Yet the amount of money which UEM had to borrow to invest in Renong suggested that the company's cash-flow problems are more serious than many believed, analysts said. They were also worried that UEM had been forced into debts which it might have trouble servicing if interest rates continued to climb.

The Kuala Lumpur Stock Exchange's Composite Index fell 45.50 points, or 6.5 per cent, to 622.09, its lowest point since March 1993. It is down more than 50 per cent this year. UEM was down 38 per cent and Renong down 20 per cent.

The ringgit fell to a low of M\$3.4 against the US dollar in late trade yesterday.

The fact that authorities granted UEM a waiver from making what should have been a mandatory general offer to buy all of Renong's shares, shook investors' faith in the principles of Malaysian corporate governance.

Renong profile, Page 18; World stocks, Page 32

Stabilisation package expected today in push to end currency crisis

Seoul tries to avoid seeking IMF aid

By John Burton in Seoul

South Korea is expected to offer a financial stabilisation package today in what is seen as a last-ditch effort to avoid seeking help from the International Monetary Fund to end a growing currency crisis.

The government said it would proceed with measures to rescue dollar-denominated banks despite the failure of parliament yesterday to pass legislation that would restructure Korea's creaky financial system.

But analysts were not optimistic that the proposals would soothe Korea's jittery financial markets. "Things are deteriorating at such a rapid pace I don't see how Korea can avoid going to the IMF for a bail-out," said Daniel Harwood, north-east Asian manager for ABN Amro Hoare Govett in Seoul.

The Korean currency, the won, yesterday fell to a record low of 1,012.80 to the US dollar despite brief intervention by the central bank, while the benchmark three-year corporate bond yield climbed to a 27-month high of 13.65 per cent.

Concerns are growing among US policymakers that Korea's financial problems could aggravate similar troubles in Japan, which would then affect US financial markets. Any IMF bail-out of Korea would be likely to be supported by contributions from the US and Japan, among others, since the rescue package, at an estimated \$50bn, would probably



Riot police pass Seoul crowds yesterday protesting at the proposed financial reforms

exceed IMF capabilities.

In Manila, where finance ministers from Asia and the US are meeting, Lawrence Summers, deputy US treasury secretary, held talks with South Korean officials but would not comment on whether he had discussed any form of rescue package.

Finance ministry officials in Seoul have denied any intention of seeking help from the IMF because it would represent a loss of "economic sovereignty".

But central bank officials are reported to have told the finance ministry that Korea should consider approaching the IMF because even state-run banks are having difficulties in raising foreign cap-

ital due to recent credit downgrades. A possible refusal by foreign banks to roll over short-term debt, which accounts for nearly 60 per cent of Korea's total foreign debt of \$110bn, would exhaust the nation's foreign currency reserves, which have declined by an unknown amount from last month's figure of \$30.5bn due to central bank support for the won.

Investment banks, which specialise in short-term corporate financing, have already seen their credit lines cut by foreign lenders, which could result in a new round of corporate bankruptcies as the investment banks

call in their loans. Foreign banks are becoming nervous about the apparent inability of the government, distracted by a presidential election next month, to deal with the falling banks and a string of corporate collapses.

The government's response has also been hobbled by bureaucratic squabbling between the finance ministry and central bank.

The decision yesterday by parliament to delay passage of financial reform legislation until at least January, despite a reported resignation threat by the finance minister, reflected protests by the central bank. Legislation would grant it

Financial officials from Asia and the US began talks in Manila yesterday aimed at establishing the mechanism for an Asian fund facility as fears mounted that South Korea would be the next country in the region to seek a financial rescue package, writes Justin Marozzi in Manila.

Roberto de Ocampo, Philippine finance secretary, said discussions would focus on setting up a regional surveillance mechanism, better economic and technical co-operation for the supervision of financial and capital markets and some sort of supplemental financing facility.

He said this would augment and not replace International Monetary Fund resources.

Independence in setting monetary policy, but the central bank would lose supervisory authority over the banks, with a resulting cut in staff jobs that have triggered strike threats by employees.

Bank supervision would be included in a new agency, controlled by the finance ministry, that would also oversee the insurance and securities industries.

An IMF bail-out would help the central bank in its bureaucratic struggle, since the finance ministry would be short of many of its considerable powers, as the IMF is likely to demand economic deregulation as a condition for any rescue package.

Rupee steadied ahead of turbulence

By Mark Nicholson in New Delhi

The Reserve Bank of India, the central bank, yesterday moved to steady a slide in the rupee as it touched a 21-month low of Rs37.52 to the dollar. It issued a statement saying it considered the currency's recent "adjustment" to be "adequate", while seeking to distance India's "strong" economy from those of its troubled Asian neighbours.

The bank's attempt to calm the markets came on the eve of an expected political storm over allegations surrounding the 1991 assassination of Rajiv Gandhi, then Congress party leader, which could threaten the survival of India's fragile United Front coalition.

The rupee recovered on the RBI statement to close at Rs37.39 - down from Monday's closing Rs36.91 - with Bombay dealers suggesting the currency could steady at these lev-

els. The rupee has eased since mid-August from a stable plateau of around Rs36 to the dollar.

The RBI's comments were taken as a clear signal of its desired floor for the currency. "It has placed a huge psychological barrier at these levels," said one Bombay dealer.

C. Rangarajan, RBI governor, said India's economic fundamentals "remain strong", but that the rupee had been "adjusting to the changing circumstances".

He said that, unlike its sharply buffeted Asian neighbours, India's current account deficit remained low as a proportion of gross domestic product and foreign currency reserves, at around \$30bn, had risen by \$3.5bn so far this year.

Currency dealers say the RBI has sold \$600m-\$1bn in the past two weeks to control what appeared to be a modest but managed depreciation of the rupee to aid India's ailing exporters. Exports have risen only

4.2 per cent so far this year on a relatively steady rupee, while many of India's trade competitors have sharply devalued.

Despite Mr Rangarajan's attempt to insulate India from the regional crisis, the depreciation reflects wider negative market sentiment towards Asia which has prompted strong sales of Indian equity by foreign institutional investors. So far this month, these investors have withdrawn a net \$58m, threatening to make this the first month since India opened its capital markets in 1993 to record a net outflow of funds.

A state telephone company issue was trimmed last week and could be jeopardised by the gathering political storm signalled by leaders of the Congress party.

They have threatened to withdraw political support for the United Front, on which the minority government depends for survival, over the apparent findings of a commis-

sion of inquiry into possible conspiracies behind the death of Mr Gandhi. The 5,280-page report, the result of a five-year inquiry, will be tabled tomorrow.

Leaked and published extracts apparently accuse one of the UF coalition parties, the Tamil Nadu-based Dravida Munnetra Kazhagam (DMK), of abetting the Liberation Tigers of Tamil Eelam, the Sri Lankan guerrilla group, in the period before the assassination. Mr Gandhi was killed by a Tamil Tiger suicide bomber during the 1991 election campaign.

Because of these allegations, Congress leaders have insisted the DMK leave the coalition as a condition of Congress's continued support for the government. UF leaders have resisted such a move.

Unresolved, the impending political clash could prompt a realignment or even threaten dissolution of the government.

In business as in motor racing, you can't beat being at Le Mans for the race.

In the heart of an exceptional motorway network, Le Mans-Sarthe has excellent road links to the rest of France and Europe. Although Paris is not far away (less than 1 hour by TGV), the setting up costs and rents make the region an attractive location. In terms of performance, it is an important centre for the motor industry in France and one of the main centres for the agricultural produce industry. Like Philips, who have chosen to base a World Mobile Telephone Centre here, you have everything you need to succeed in Sarthe. So, make a beeline now.

Le Mans - Sarthe

Angélique Merviel, tel: 06 93 2 43 57 43 10
http://www.sarthe.com - e-mail: cee@sarthe.com

SARTHE



The name.



Major financial players throughout Asia will tell you: The name to remember is Peregrine. For financial advisory services when you're ready to make a move in Asia.

PEREGRINE

Asia Pacific - Global Distribution

Head Office: New York 212 222 1234; London 01 235 222 1234; Singapore 06 222 1234; Hong Kong 02 222 1234; Tokyo 03 222 1234; Sydney 02 222 1234; Melbourne 03 222 1234; Perth 08 222 1234; Auckland 09 222 1234; Wellington 04 222 1234; Christchurch 03 222 1234; Dunedin 03 222 1234; Invercargill 03 222 1234; Queenstown 03 222 1234; Milford Sound 03 222 1234; Fiordland 03 222 1234; South Island 03 222 1234; North Island 03 222 1234; New Zealand 03 222 1234; Oceania 03 222 1234; Asia 03 222 1234; Pacific 03 222 1234; Global 03 222 1234.

Pinochet in plan for UK arms office

By Jimmy Burns
in London and Inogen Mark
in Santiago

Chile's General Augusto Pinochet is hoping to boost his country's defence ties with the UK by setting up an arms procurement office in London before he steps down from his post as head of the armed forces next March.

Discreet plans to move the Chilean army's main European procurement office from Madrid to London have

dent in 1989 but held on to the most senior military post.

The prosecution on behalf of the families of alleged victims of Spanish nationality has little chance of coming to trial. However, the surrounding publicity has raised the human rights issue at a time when Gen Pinochet is hoping to retire with honour.

Under a law imposed by Gen Pinochet as a condition for agreeing to democratic elections, amnesty from prosecution was granted to anyone accused of human rights abuses during the regime.

to Gen Pinochet has been a frequent, if discreet, visitor to the UK. These officially "private" visits have often included talks with UK defence manufacturers.

The Chilean leader has been instrumental in developing for the Chilean army an artillery rocket known as Rayo, designed by British Aerospace.

Bae said this week that the project, details of which remain secret, was "ending its research programme". Final tests are to be carried out in Chile this month, and the Rayo should go into production and on sale next year, according to a Chilean army spokesman.

It is understood that Chilean army officials and Bae are considering attaching a sophisticated computerised guidance system to the rocket, which has several conventional uses, including as an anti-tank weapon.

British defence manufacturers generally are thought to be keen on expanding their links with Chile. But the Pinochet connection may provoke further controversy over the UK government's so-called ethical policy on arms exports. This puts curbs on sales of equipment which might be used for internal repression or external aggression.



Pinochet seeks London arms procurement office

recently gathered pace against a background of deteriorating relations between the Chilean army establishment and the Spanish government.

The Chilean airforce and navy already have procurement offices in London.

The Spanish defence minister recently postponed a visit to Santiago until after Gen Pinochet has stepped down, and the Chilean army is understood to have cancelled a \$23m order for three transport aircraft from CASA, the Spanish maker.

Gen Pinochet is thought to have been angered by the decision last year of a Spanish judge to launch a private prosecution against him for human rights violations committed during his regime. He came to power after a military coup in 1973 and stepped down as presi-

US warns Japan on imported spirits tax

By Frances Williams
in Geneva

Washington yesterday warned Japan that it could face retaliation under World Trade Organisation rules for failing to implement a WTO judgment to end discriminatory taxation of imported spirits.

Rita Hayes, the new US ambassador to the WTO in Geneva, said Japan had still not come up with proposals to comply with an arbitrator's ruling that the tax changes should be completed by February 1993, 15 months after adoption of the WTO's findings.

Addressing a meeting of

the WTO's dispute settlement body, she said she hoped Japan would avoid being the first target for authorised retaliation under WTO rules. These permit the withdrawal of trade concessions from countries that fail to comply with dispute panel rulings or agree compensation.

Japan's implementing legislation delays the final phase of tax increases on the local spirit *shochu* until October 2001. Earlier this year the European Union negotiated a deal with Japan that reduced tariffs on imported spirits such as whisky to keep the tax differential with *shochu*

within narrow limits during the transition.

However, Washington and Tokyo failed to reach an agreement and the US took the issue to WTO arbitration.

Chile's allegedly discriminatory tax system favouring the domestic spirit, *pisco*.

Chile has just passed legislation to cut taxes on imported liquors and raise

quarantine rules for fruit.

The US said it was still hoping for an amicable settlement with India which last week reached agreement with the EU and Australia on a six-year phase-out of

agreement reached with New Zealand during the Uruguay Round of trade talks.

EU officials said yesterday that the US and four Latin American countries that brought a successful WTO case against the EU's banana import regime had asked for WTO arbitration to fix a timetable for implementation.

Earlier this month the European Commission proposed implementation within 15 months and one week, close to the 15-month period the WTO regards as a normal maximum, though EU members have still not agreed on how the regime is to be modified.

Washington says Tokyo has still not come up with proposals to comply with arbitrator's ruling

The WTO ruling against Japan has spawned similar cases against South Korea and Chile.

A WTO panel was established last month for South Korea at the request of the EU and US, and yesterday the EU secured a panel on

those on *pisco* but Brussels says the new law does not satisfy its concerns.

Two other panels were established yesterday at Washington's request, one on India's curbs on imports of consumer goods and the other on Japan's

the import restrictions.

A fourth WTO panel was set up yesterday to investigate EU tariffs on imports of spreadable butter from New Zealand.

Brussels argues that the butter does not qualify for duty-free treatment under an

Qatar oil group eyes aluminium, methanol deals

By Judy Dempsey
in Doha

Qatar General Petroleum Corporation yesterday signed two memoranda of understanding to develop an aluminium smelter plant and a methanol manufacturing complex, each worth at least \$1bn.

The MoUs, agreed at the fourth Middle East and North Africa conference which ended yesterday, are

aimed at diversifying Qatar's production base as well as its downstream petrochemical activities.

The smelter MoU was signed between QGPC and Norsk Hydro ASA, the Norwegian aluminium producer which has interests worldwide.

QGPC will hold a 40 per cent stake and Norsk Hydro ASA will hold the remaining 60 per cent, the first time a foreign company will be

allowed take the majority stake.

The joint venture precedes a new investment law currently being drawn up by the Qatar government.

The study carried out by QGPC and Norsk Hydro ASA will consider two options for an aluminium smelter - one with an annual capacity of 200,000 tonnes, the second with a capacity of 400,000 tonnes. The first option will require

a capital investment of \$1bn for a plant which is scheduled to be completed by 2002.

Qatar's plans to develop an aluminium smelter is part of a strategy to use its vast and cheap gas reserves and tap the growing demand for aluminium in south-east Asia.

This MoU follows a recent deal signed by Oman with an international consortium to invest \$3bn in a new alu-

minium smelter plant with annual production capacity of 400,000 tonnes per year.

Dubai is also seeking international partners for a second smelter.

The methanol MoU was signed between QGPC and Methanex Corporation of Canada to assess the viability of building a plant capable of producing an annual 3m tonnes of methanol.

QGPC will hold a 51 per cent stake in the project

with Methanex holding the remaining 49 per cent.

The start-up production date could be as early as 2002 with the plant producing industrial methanol, mainly for export.

In line with other countries of the Co-operation Council for the Arab States of the Gulf (GCC), Qatar is moving towards allowing greater foreign participation in a bid to diversify its economy.

NEWS DIGEST

Sabena buys 34 Airbus

Sabena, the Belgian airline, said yesterday it would buy 34 aircraft from Airbus Industrie, the European consortium, which had fought a fierce battle against Boeing of the US for the order. Sabena said the order, its biggest ever, was for 26 A319s, five A320s and three A321s. Airbus had helped win the contract by offering work to Sabena Technics, the airline's maintenance and engineering arm.

Sabena Technics staff had called on the company to order Boeing 737s because they specialise in maintaining the aircraft for other carriers and feared an Airbus order would result in job losses.

Boeing offered to take an equity stake in the engineering unit if Sabena ordered Boeings. Sabena said it also wanted to have the same aircraft as Swissair, which owns 49.5 per cent of the Belgian carrier. Swissair has also offered Sabena Technics Airbus maintenance work.

Michael Skapinker, Aerospace Correspondent British Aerospace. See editorial comment

AIRLINE BILATERAL DEAL

Lufthansa plans strategic link

Lufthansa and Singapore Airlines are expected to announce a strategic partnership on Monday, which might include a code-sharing agreement between the carriers. This means the companies will be able to sell tickets on each other flights and offer passengers a joint frequent flyer programme.

Lufthansa said yesterday the bilateral deal would not involve Star Alliance, a powerful club of six carriers led by Lufthansa and United Airlines, of the US, which also includes SAS of Scandinavia, Thai Airways, Varig of Brazil and Air Canada. Analysts say the initial bilateral deal with Lufthansa is likely to lead to Singapore Airlines joining the Star Alliance in the future.

Singapore Airlines already has co-operation agreements with Delta Air Lines of the US and Swiss Air. However, the partnership with Lufthansa would give the airline a much better position in Europe and North America.

It will also strengthen Lufthansa's position in the Asia-Pacific market, which the German airline has sought for some time. Singapore Airlines, one of the world's biggest and most profitable carriers, is 54 per cent owned by the state. Lufthansa is also understood to be in talks with Cathay Pacific.

Arkady Ostrovsky, London

MEXICO REFINERY CONTRACT

Win for Siemens consortium

A \$2.46bn contract to upgrade one of Mexico's most important oil refineries has been awarded to a consortium formed by Siemens, the German electrical engineering group, Sunkyoung Engineering & Construction of South Korea, and Tribasa, a Mexican construction company.

The contractors have agreed to finance modernisation of Cadereyta, a refinery in north Mexico, in what will be the first off-balance-sheet project for Pemex, the state oil monopoly. Because Mexican law forbids private ownership of oil production facilities, Pemex will repay the contractors in half-yearly instalments over a period of 10 years.

Pemex has launched a drive to produce cleaner fuels in order to allow Mexican industry to meet stricter environmental guidelines on air pollution.

New pollution controls were scheduled to come into force in 1993, but have been delayed until Pemex completes the modernisation of facilities such as Cadereyta.

Leslie Crawford, Mexico City

Delta Air Lines

ON TOP OF THE WORLD

There are millions of reasons to fly today,
only one that matters to you.

You could be on a quest to find new
business opportunities. Maybe you're
flying to close an important deal.
You might be crossing the skies
with a ring in your pocket and a
proposal on your lips.

Whatever your reason, it's important
to us as well. Which is why, at
Delta Air Lines, we promise to make
your journey to the place you want to
be just as good as the reasons you
have for going there.

NEWS: INTERNATIONAL

Russia claims plan to end Iraq crisis

Russia said it had worked out a plan to bring a peaceful end to the crisis between Iraq and the United Nations after unexpected talks yesterday between President Boris Yeltsin and Tariq Aziz, Iraqi deputy premier, Reuters reports from Moscow.

The US, which has not ruled out military action over Iraq's decision to bar Americans from UN weapons inspection teams, said it had no information on a plan.

Mr Aziz flew in unexpectedly to Moscow yesterday. He met Yevgeny Primakov, Russia's foreign minister, and Mr Yeltsin, who has warned Washington against the use of force.

"As a result of these talks, a specific programme has been worked out which, we believe, allows us to avoid military confrontation and the use of military methods, and to move towards liquidating this crisis, of course with Iraq fulfilling the corresponding UN Security Council resolutions," Mr Primakov said.

Russia, along with fellow Security Council member France, has considerable economic interest in seeing an end to the UN sanctions imposed on Iraq after the 1991 Gulf war. Oil companies from both countries are keen

Luxor killings highlight role of economic reform

The dramatic exposure of Egypt's vulnerability to Islamist militant violence has intensified pressure for a radical review of both security measures and the character of future economic reform.

President Hosni Mubarak yesterday publicly berated Hassan al-Ahli, the interior minister responsible for security and the architect of the government's hardline policy toward militant organisations, for the catastrophic security lapse which left one of Egypt's most popular tourist sites unprotected and 57 foreign tourists dead.

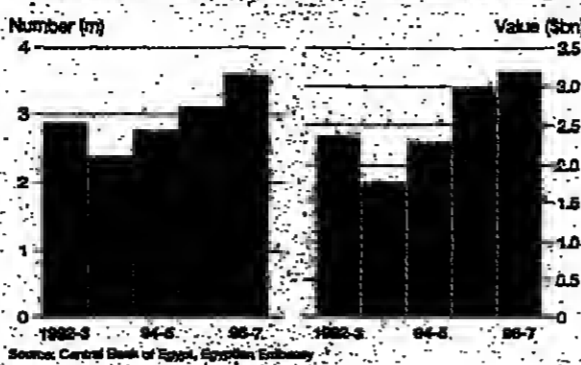
During a tour of the massacre site near Luxor yesterday, Mr Mubarak turned to Mr al-Ahli, who subsequently resigned, and told him: "You have failed. You don't move. You only stay in Cairo."

The government remains intent upon pursuing its security-centred policy toward the Islamist militants rather than opening political dialogue.

"The scale of the slaughter is totally incommensurate with the size of the Islamist organisations, and the issues involved are no longer questions of economics or religion," a senior government minister said yesterday. "It is purely a security issue, and we have taken care of it by cutting the head off the snake. But the tail is still wagging."

Even so, the militants'

Tourism's contribution to the economy



ability to have a devastating impact despite being a tiny minority lies at the heart of the government's vulnerability. The failure fully to counter the security threat has heightened the importance of economic reform intended ultimately to raise living standards and undermine the militants' constituency.

The tourism industry has played a big role in this reform strategy, with receipts standing at \$3.2bn so far this year. New tourism developments on the Red Sea are almost entirely reliant upon construction labourers brought from Luxor and other areas of Upper Egypt in which the militants are most active.

Tourism also underpins the economy of towns such as Luxor, which attracts 2m visitors a year. Cairo tour operators were yesterday

of a problem in one sector is diminished. We should have tourism grow, but we should have everything else grow, so that tourism is one sector out of fifty," said Youssef Boutros Ghali, Egypt's economy minister, yesterday.

"Even so, I don't think investment will be affected by what has happened, though tourism will take a hit."

Yesterday the Gama'a al-Islamiyya, Egypt's main militant organisation, claimed responsibility for the attack. The organisation said gunmen had intended to take foreign tourists as hostages who would be freed in return for release of Omar Abdel Rahman, the militants' spiritual leader now serving life in the US.

Five months ago jailed members of the organisation called for a unilateral truce in the five-year conflict with the government. However, its exiled supporters rejected the truce call and have since precipitated a split within the group. It was they who yesterday claimed responsibility for the attack and threatened more violence.

"The exiled leaders don't agree with the truce, mainly because the government hasn't done anything positive since the truce was called," said Yasser al-Sirri, a London-based Egyptian exile with close links to the Gama'a al-Islamiyya.

Mark Huband

Probe of Algeria massacres urged

By Roula Khatef in London

Amnesty International yesterday called for an international investigation into recent massacres in Algeria to reveal the truth about those responsible, and accused the international community of turning its back on Algeria's human rights tragedy.

The London-based human rights organisation yesterday detailed the country's descent into bloody chaos, with violence and counter violence carried out since 1992 behind a wall of silence, which it said was built up through censorship and the authorities' manipulation of information.

The United Nations Children's Fund immediately issued a press release supporting Amnesty's calls for concrete action, including the recommendation for an independent investigation into human rights abuses.

In the past year, Algeria's human rights abuses have been exacerbated by relentless massacres of civilians in areas around and south of Algiers. In several cases, security forces appeared to stand by while hundreds of civilians were killed.

The government blames all the violence on extremist Islamist groups. It maintains that security forces could not intervene because they had been tricked into intervening and then ambushed.

According to Amnesty, however, the Algerian authorities "are at the very least responsible for a consistent failure to provide protection to the civilian population". Testimonies from survivors of some massacres, said Amnesty, also add weight to allegations that armed groups who carried out massacres of civilians in some cases operated in conjunction with, or with the consent of, certain army or security forces units. The government denies this and has rejected appeals for investigations.

Harare's reforms win IMF applause

By Tony Hawkins in Harare

A team from the International Monetary Fund yesterday welcomed the austerity package announced on Monday by Herbert Murerwa, Zimbabwe's finance minister, but made no mention of resumed lending by the Fund itself.

The team, winding up a two-week mission, described Dr Murerwa's package, which has had a poor reception in the business community, as "strong and comprehensive" and "a major step forward in the stabilisation effort".

The IMF said it expected that the stabilisation measures would help release \$100m of fast-disbursing balance of payments assistance by the World Bank and other donors. The Fund team described the reversal of some economic reforms - notably the conversion of foreign currency accounts held by domestic companies into Zimbabwe dollars - as a modification, expected to remain in force "only for as long as the acute foreign exchange pressures exist".

Business analysts are far more critical, noting that the package involves Z\$2bn (US\$135m) of new domestic borrowing. With the associated financing cost (Z\$500m), higher interest rates and the budgetary cost of increased foreign debt-servicing, they say, the budget deficit will be pushed above 10 per cent of gross domestic product this year.

In foreign currency trading yesterday the Zimbabwe dollar stabilised to a mid-rate of about Z\$14 to the US unit from Z\$14.50 on Monday. There was a modest sell-off on the Zimbabwe Stock Exchange, which has fallen 4 per cent since the currency crisis started last Friday. Institutional investors were switching funds to the money market to exploit the higher interest rates.

Israel urged to exchange land for peace

By Judy Dempsey in Doha

The Middle East and North Africa (Mena) economic conference ended yesterday with a call on Israel to exchange land for peace and remove all restrictive measures and closures on the West Bank and Gaza.

In a declaration that reflected increasing impatience with the Israeli government, the 65 participating countries said Israel must abide by United Nations Security Council Resolutions 242 and 338.

These include trading land for peace, the basis for the 1991 Madrid peace conference.

The declaration ended three days' constant criticism of Israel, with the US often leading the way in demanding Benjamin Netanyahu, Israeli prime minister, abide by agreements signed with the Palestinians.

Mr Netanyahu's intransigence on the peace process was one of the main reasons many Arab states, including Egypt, Morocco and Saudi Arabia, boycotted the

conference. It was the largest boycott since the Mena process started in 1994. More than 90 countries attended last year's Mena conference in Cairo.

"It was very important we specifically mentioned the exchange of land for peace in the declaration," said Henry Siegman, director of the Council on Foreign Relations, the US-Middle East project and an influential think-tank committed to the peace process.

The Israeli delegation had tried to block the declaration, saying

the reference to "land for peace" had not been spelt out at the Madrid conference. But they failed to do so and eventually signed the declaration.

Diplomats said they wanted to send a clear message to the Netanyahu government that prosperity in the region could not be attained without a "just, lasting and comprehensive peace". "It's time Netanyahu realised the damage he is causing," a US official said.

The Israeli delegation led by Nathan Sharansky, trade and indus-

try minister, attempted to show it was finding ways around the closures of the West Bank and Gaza by promising finally to open the Karni Industrial Estate, a \$32m project financed heavily by US aid.

But the Doha Declaration demanded "the immediate removal of all restrictions", adding the Palestinian economy had "deteriorated dramatically in the past year". Per capita income has fallen 24 per cent and gross national product declined 40 per cent since 1995.

CATHAY PACIFIC

SUPER OFFER

TO HONG KONG

2 PEOPLE + 3 NIGHTS HOTEL

From	FRANKFURT	DM 1,998
From	PARIS	FF 5,900
From	ZURICH	SFR. 1,499
From	AMSTERDAM	NLG 1,998

Fly Cathay Pacific. The Heart of Asia.

Touchdown at www.cathaypacific.com

Offer subject to availability and local conditions apply. There are a number of fare categories available. Offer price will vary according to the total category you choose.

سكنا من الامم

Argentine loan talks on ice after market turmoil

By Ken Wern
in Buenos Aires

Argentina has "halted conversations" with international banks for a \$2bn syndicated loan because of the turmoil in global financial markets, Pablo Guidotti, treasury secretary, said yesterday.

Mexico last week secured a \$2.5bn credit in the syndicated loan market but the Argentine loan "was basically put on ice after the Dow tumbled last month", Mr Guidotti said.

The credit line would have been intended as an "insurance" against future unexpected increases in the costs of borrowing. "Deals like this are hard to close in the

current international conditions. Something similar is still an objective, but we decided there was no rush," he said. Talks had been at a "preliminary" stage.

Argentina, along with other emerging market borrowers, is facing sharply higher costs for issuing bonds as a result of the market turmoil. However, Mr Guidotti said he foresaw no problems accessing the markets to meet the country's 1998 borrowing needs.

"We will see as the international situation develops. We will stay out of the market longer if need be. But we are still receiving, and analysing, offers to place bonds," he said.

Argentina next year plans

to seek \$7.5bn-\$8bn from the international markets and \$5bn domestically, along with the rollover of \$3bn in local money market instruments (Letes). Domestic offerings might take a smaller percentage than planned, depending on market conditions, he said.

Spreads for Argentina would for some time remain higher than they were before the latest market fluctuations, Mr Guidotti admitted.

Argentina would also be likely to face shorter maturities for its new debt. "This year we were taking advantage of favourable market conditions to set a benchmark of 20-30 years for new issues, but in 1998 we will probably be looking more at

the 5-10 year range."

That was still consistent with improving the maturity profile of Argentine debt, he said.

Argentina was due to sign a letter of intent for a \$2.5bn extended fund facility from the International Monetary Fund within the next 10 days, while the IMF board was due to discuss the accord on January 28, Mr Guidotti added.

The accord, which sets a fiscal deficit target for next year of 3.5bn, would mention the government's move this month to seek proposals for the privatisation of Banco Nación, the country's biggest financial entity. But this was not part of the performance criteria, he said.

Ontario plays safe with its energy plans

Some disappointment has followed the recent policy paper on liberalisation of Ontario's electricity sector. Many observers had hoped authorities in the Canadian province would opt for outright privatisation of Ontario Hydro, one of North America's largest power companies.

But public opinion suggests allowing the private sector to take control of the province's nuclear reactors would be controversial.

The conservative provincial government of Mike Harris appears to have opted for a slow approach that would prepare for eventual sale of only the province's electrical generation assets.

In the short term, the policy paper proposes the debt-laden Ontario Hydro be split into three public entities:

- A generation company;
- A transmission and retail arm;
- An independent market manager.

All of these entities would operate in a competitive market beginning in 2000.

As a result, Ontario has attracted interest from the private sector by making clear the province would welcome investment in competitive generation projects or in joint ventures with the utility's generation offshoot.

Ontario's energy ministry forecasts the province will need as much as C\$10bn (US\$7bn) worth of new or replacement generation capacity in the next 10-15 years.

Provincial officials have said the government is likely to retain its transmission monopoly, but they have notably refused to rule out eventual privatisation of the utility's generation offshoot.

The government's coyness is not surprising, given the likely political backlash it would have faced had it announced the outright privatisation of Ontario Hydro.

Despite recent and widespread deregulation and privatisation in various sectors of the economy, Canadians are still wary of private investment in areas such as medical services, prisons and utilities, particularly those with nuclear reactors.

The policy paper makes a strong case for reform. Power costs rose 30 per cent in the early 1980s and the utility has been forced to write off more than C\$7bn in non-performing assets over the past five years. The performance of the utility's nuclear plants has been declining since the early 1990s.

Problems at the division were highlighted by a recent report that said several reactors have been operating at minimally acceptable safety levels. The corporation said it would shut seven of its 19 active reactors by next year as part of a C\$8bn programme to rehabilitate nuclear facilities.

The province's energy

ministry said it would write its proposals into legislation next year to ensure the province moves quickly to a competitive model and keeps electricity rates comparable with other regions in North America. With higher rates, Ontario would be risk losing investment and jobs.

Moreover, a ministry spokesman argues that the early liberalisation date will force Ontario Hydro to operate and upgrade its generation facilities within a market framework, encouraging management to avoid the inefficiencies that have hobbled the utility.

The generation and transmission entities will assume about half of the utility's C\$30bn debt - obligations that the government deems would still allow them to be commercially viable.

By delaying deregulation, the government may inadvertently allow the utility to increase its debt load, particularly given the corporation's nuclear woes.

Critics say the government's target date is far too aggressive and does not give the utility enough time to restore its nuclear generation capacity to compete with new entrants in the Ontario market.

"The successor companies of Ontario Hydro will have an awfully difficult time competing," said John Wilson, president of the union representing the utility's 5,000 engineers, scientists and other professionals.

He said his union would launch a campaign in a bid to prevent the government from moving forward, but with a solid majority in the provincial legislature, Mr Harris should be able easily to see his plan through.

NEWS DIGEST

US prices slightly higher

US consumer prices edged up in October, in the latest indication that inflationary pressures in the world's largest economy remain muted.

The Labour Department reported that the consumer price index rose just 0.2 per cent last month, the same as in September. In the three months to October, prices rose at an annual 2.5 per cent. Core inflation, excluding volatile food and energy prices, also rose at a steady rate of 0.3 per cent. The three-month rate of increase was 1.9 per cent.

Neither the overall rate nor the detailed breakdown of prices by sector suggested the recent strong growth in the US economy had pushed up prices much. Tight labour markets have raised average wage increases to their highest level since the current expansion began nearly seven years ago.

Gerard Baker, Washington

JAVA LOGO

Bar on Microsoft sought

Sun Microsystems yesterday asked a federal judge to bar Microsoft from using Sun's Java logo on its internet browser software. The action could lead to an interruption in shipments of the widely-used Microsoft Internet Explorer program.

Sun's action is the latest in a growing legal battle with Microsoft. Last month Sun filed a breach of contract lawsuit against the software industry leader, charging that it had improperly modified Java.

Java is a set of programming tools that enables software developers to write programs that will run on any type of computer. Sun says that by omitting portions of Java, Microsoft has turned it into a Windows-only development tool.

Microsoft has filed a counter-claim, also for breach of contract, charging that Sun failed to live up to its obligations.

In its latest filing, Sun says Microsoft is deceiving consumers by placing the "Java compatible" logo on its internet software. "It's like buying a can of Coca-Cola and finding ginger ale inside," said Michael H. Morris, Sun's general counsel. "The customer trusted the brand and was deceived."

Louise Kehoe, San Francisco

SEX HARASSMENT

Smith Barney deal near

In a landmark US legal settlement, Smith Barney, the financial institution owned by Travelers Group, has agreed to let an independent arbitrator outside the securities industry resolve complaints about the treatment of female staff.

Lawyers for the plaintiffs in the gender discrimination and sexual harassment class action lawsuit filed in May 1996 said yesterday they had agreed a settlement with Smith Barney. It was presented yesterday to a federal judge, whose approval is required.

The lawsuit alleges that female employees of Smith Barney were groped by senior male workers in what was known as the "boom-boom room". It alleges that women were denied promotions and that the firm ignored complaints of abuse and unwanted sexual advances.

"We believe the process established today can serve as a model for Wall Street and for corporate America in providing fair and equitable treatment for women and minorities," said Mary Stowell, lawyer to one of the plaintiffs and a partner in Leng Stowell Friedman & Vernon, the Chicago-based law firm.

Smith Barney is also thought to have agreed to pay out minimum payments of several million dollars to each of the plaintiffs. The firm was unavailable for comment yesterday.

The suit was filed by three women in May 1996 and was joined by 20 other women in October 1996. The plaintiffs said that notice of the proposed settlement would be sent to approximately 20,000 present and former women employees of Smith Barney.

William Lewis, New York

FRAUD CHARGES

Boeing faces lawsuits

Boeing and two of its most senior executives have been accused of securities fraud in class action suits filed in Washington and Pennsylvania.

Claiming damages on behalf of shareholders who bought stock in the three months before the Seattle-based aerospace group disclosed the extent of its production problems, the suits name Phil Condit, chairman, and Boyd Givan, chief financial officer. A complaint filed yesterday claimed "false and misleading statements and omissions" had enabled the two men to sell more than 20 per cent of their shareholdings at "artificially inflated prices".

Christopher Parkes, Los Angeles

Brazil sets stage for its next battle on economic policy

Theatrical flourishes herald a crucial vote that may affect financial markets, says Geoff Dyer

Brazil's economic crisis has brought a theatrical quality to political life.

"History does not pardon those who hesitate in these moments," Fernando Henrique Cardoso, Brazil's president, advised the country's politicians. "This battle is our Waterloo," added Luiz Carlos Santos, his minister for political co-ordination.

The rhetoric has a particular target - tonight's scheduled vote on the government's long-stalled reform of the civil service.

With financial markets threatening to tear up Brazil's economic strategy, the lower house vote is a symbolic test of this government's ability to win approval for budget-cutting legislation.

The stakes are high. Victory will send a powerful signal about the government's determination to defend its currency, the Real; defeat will rattle financial markets and probably put the currency under pressure.

Brazil has been hit hard by the turmoil in world markets because of its large budget and current account deficits and because the Real is widely viewed as being overvalued.

Having doubled interest rates to defend the currency, the government's strategy for surviving the crisis has been two-fold:

- First, it announced last week a package of budget cuts and tax rises worth R\$20bn (US\$12bn) designed to bring short-term relief to the fiscal deficit.
- Second, it has redoubled efforts to pass reforms to the civil service and pension systems, whose excesses are the principal cause of the fiscal problem. As it is nearly

three years since these bills were first presented to Congress, they have become a symbol of the government's inability to solve structural problems in the economy.

The lower house voted in April in favour of the civil service bill, which ends lifetime job guarantees for public servants. However, it passed by just one vote and government whips have delayed the necessary second vote for fear its small majority would disappear.

Political analysts think the government stands a good chance of success in tonight's vote. The leaders of the coalition parties, if not all the members of Congress, have been galvanised by fears of a currency crisis.

"The political environment is very confused, but the climate of opinion is favourable for the government," said Walder de Góes, a Brasília political analyst.

The most important factor has been the change of tune of Paulo Maluf, leader of the Progressive party (PPB), an occasionally erratic member of the government coalition. Mr Maluf initially tried to make political capital out of the crisis, describing the rise in interest rates as "pornographic".

However, he has since publicly declared his support for Mr Cardoso's reforms and, in the process, appeared to rule himself out as a presidential candidate next year.

If he can deliver a large proportion of his party's deputies, the government should win comfortably and defeat opposition amendments. The risk for the government is that the civil service vote will get caught up in bargaining over last week's fiscal cuts.

The proposal to increase



Antonio Carlos Magalhães - with his son, Luiz Eduardo, a deputy - waves after becoming Senate president this year

income tax is one of the few measures in the package that needs to be approved by Congress, but it has provoked widespread opposition, including from Antonio Carlos Magalhães, leader of the Senate and usually one of the president's closest allies.

After a brief hesitation last week, Mr Cardoso has stood firm behind the unpopular income tax increase. But deputies are likely to put pressure on the government to make concessions until the last minute in return for their support for the civil service bill.

Meanwhile, opposition deputies are trying to have the vote suspended on the grounds that the text of the bill has been changed since the first lower house vote.

On the social security bill, the outlook is not so optimistic.

A revised version of the bill has been passed by the Senate and returns this week to a committee of the lower house, which emulated the initial proposal last year.

Even with the more favourable environment in Congress for the government's proposals, political analysts predict that the bill will still face tough opposition in the lower house because it will create many losers in an election year.

If progress continues to be slow, political analysts say one option would be to divide the bill into two parts: one for civil servants and one for the population as a whole.

The more controversial second part could then be left until after the election. But in the present environment, financial markets are likely to take a dim view of any backsliding.

We made 6 promises to ourselves before developing these solar energy cells.

- 1 Create the multi-junction photovoltaic cell with the highest energy conversion efficiency in the world.
- 2 Make solar cells affordable for more households. Research the best company to protect public and environmental safety.
- 3 Design the largest photovoltaic cell in the world. Solar energy means employing less land area and more efficient use of resources.
- 4 Use resources that are plentiful to reduce strain on the environment. Solar cells are made from silicon, which is abundant in nature.
- 5 Gradually reduce the thickness of the cell. Thinner multi-junction solar cells are more efficient and less expensive to produce. Our goal is to make solar cells that are thinner than a sheet of paper.
- 6 Become one of the leading producers of solar cells in the world. Solar cells are not only pollution-free, they also reduce carbon dioxide emissions and help to reduce global warming.

At Kyocera, we believe that solar energy should be part of our future. It's clean, it's green, and it's the way to a sustainable future. We're committed to making solar energy a reality for everyone. We're committed to making solar energy a reality for everyone.

And one million to the earth.

Each one wrapped in sunshine.

It's not difficult to see where much of life on earth draws its energy from. That's why we plan to be instrumental in placing solar systems on one million rooftops by the year 2010. Bringing us much closer to reducing the effects of global warming, and helping the earth to breathe a little easier.

Products for a Clear Future.

KYOCERA

NEWS: UK

Main pro-British party will voice concern on republic's claim to N Ireland

Irish PM to meet unionist chief

By John Kampner,
Chief Political
Correspondent

The government of the Republic of Ireland and the Ulster Unionist party have agreed to meet tomorrow in an attempt to break the deadlock over the republic's future role in Northern Ireland and its traditional claims to the territory. The Ulster Unionists are the largest pro-British party in Northern Ireland.

The previously un-announced meeting is expected to take place near London's Heathrow airport, where Bertie Ahern, the Irish prime minister, is due to change planes on his way from Dublin to a European Union employment summit in Luxembourg.

Mr Ahern's talks with

Plans for the first dedicated "call centre park" in Britain were unveiled yesterday by TBI, a property company based in Wales. The park will be part of a £100m (\$169m) development at Belfast airport in Northern Ireland. TBI owns Belfast International airport, Cardiff International in Wales and Orlando Sanford in Florida. When TBI acquired Belfast International, "we were surprised that industrial development did not already exist", said Keith Brooks, chief executive of TBI. As well as a call centre

park, plans for the 144,000 sq m site include the first non-food factory outlet village in Northern Ireland.

TBI said there was "considerable identified demand" from the UK for call centres. The growing sector currently accounts for only 4 per cent of calls made compared with 40 per cent in the US.

TBI acquired Belfast International Airport in 1996 for £100m. It has since invested £2m in improving terminal facilities and has started building a £7m check-in hall.

with Mr Blair yesterday, Mr Trimble expressed his anxiety about recent statements by senior Sinn Féin figures, which cast doubt on their commitment to the peace process. Sinn Féin is the political wing of the Irish Republican Army.

Mr Trimble cited weekend comments by Francis Molloy, a Sinn Féin negotiator at a meeting of republican hardliners as further reason for Mr Blair not to receive Gerry Adams, Sinn Féin president.

However, aides of the prime minister appeared to confirm suggestions that a meeting with Mr Adams would take place soon: "It is generally accepted that Sinn Féin as a party to the talks will be treated just the same as other parties to the talks process."

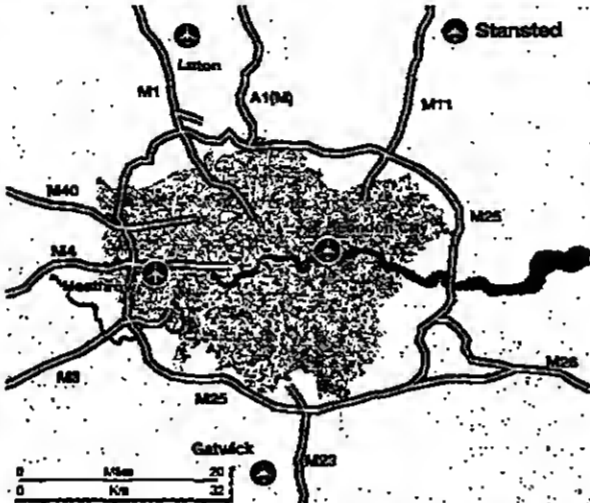
David Trimble, Ulster Unionist leader, came amid growing concern about splits among republicans and a lack of progress at the talks. Mr Ahern will use the discussion with Mr Trimble as a precursor to a planned meeting later tomorrow or on Friday with Tony Blair, the UK prime minister.

In their first bilateral talks since Mr Ahern's election

victory, Mr Trimble will make clear his party's dissatisfaction with what he sees as the Irish government's reluctance to renounce articles Two and Three of its constitution, expressing claims to the whole island of Ireland.

Recent proposals by Irish officials to change the wording were described last night by Trimble as "cosmetic".

London's airports



Stansted, the home of BA's low-cost airline, is remote from London's biggest airports at Heathrow and Gatwick

Certainly Stansted, the airport from which Blue Sky will fly, will be cheaper and less congested than either Heathrow or Gatwick. Analysts reckon that turnaround at such regional airports as Stansted can be achieved in 20 mins compared with 45 mins at Heathrow. As Mrs Cassani says: "Aircraft are expensive assets to have sitting on the ground."

Some query whether a BA-owned business is up to the

job: "Running a no-frills, point-to-point carrier is very different from running an integrated network," says Stephen Clapham of Robert Fleming Securities.

BA says management, identity and name will be different. But, say sceptics, if BA is not using the power of its brand to establish the airline, then it is denying itself its strongest asset.

Charis Gresser

Rivals fear Blue Sky will herald a storm

Blue Sky, British Airways' new low-cost airline, has flown into an industry squall before its aircraft have even begun to take off. Rivals fear that BA's new airline masks a plan to destroy them, and are preparing to call on Europe's competition authorities to investigate the matter. In particular, they want assurances that BA cannot cross-subsidise its offspring.

Barbara Cassani, Blue Sky's chief executive, says her business case will be "squeaky clean". In any case, she adds, it makes better business sense to be separate from BA.

"We have a very independent stance. I am not turning to BA and saying 'Provide a service to me'. I'm in a different business, and anyway, I probably couldn't afford them," she says.

Quite what the airline can afford is still undisclosed, but some sketchy details have been released. Eight aircraft will be leased for the

BA's new low-cost airline may face EU competition inquiry

first year at a likely cost of \$25m to \$30m; 150 jobs will be created and the business expects to move into profit by its third year. With these scraps of information, analysts reckon the airline could generate between \$30m (\$51m) and \$40m of turnover in its first year.

That still leaves a lot of guesswork to be done. The City of London still does not know how much BA is investing, how big the initial losses will be, or which cities it proposes to fly to.

Analysts who favour the plan say it has the hallmark of a pre-emptive, confident airline which is acting now to prevent a re-run of events in the US market. There, Southwest Airlines captured the Texan market with its co-frills concept. The large US carriers, busy with their intercontinental businesses, failed to spot the danger.

leaving Southwest to build up a vast cash pile with which to pillage their plum markets such as California.

Chris Tarry, at Dresdner Kleinwort Benson, also approves of BA planting its new "flag" at London Stansted airport to the north-east of the capital, given the ever-increasing congestion at the larger Heathrow and Gatwick airports.

Rightly or wrongly, BA believes that through Blue Sky it can enter a fast-growing market, with far fatter margins than its short-haul flights across Europe, and do so without alienating existing passengers.

But for BA's experiment to work, it has to compete on costs. It has to achieve far lower airport charges, which can amount to more than 10 per cent of an airline's total costs, and it has to achieve higher rates of occupancy.

Stock exchange plans price safeguards

By Jean Eaglesham in London

The London Stock Exchange plans urgent action to stop small investors unwittingly buying and selling shares at "sucker prices" rather than reasonably competitive ones.

The problem stems from the exchange's electronic order book, introduced four weeks ago, which matches buy and sell orders auto-

matically, rather than dealing through marketmakers who quote prices.

However, few orders are being placed in the first hour of trading from 09h30. This causes wide spreads between buying and selling prices in the period when cheap execution-only stockbrokers, such as Sharelink and CityDeal, are executing orders placed the previous even-

ing or soon after opening. The result is that investors buying or selling shares are losing up to 15 per cent compared with the prices they could have secured by doing the deal an hour or so later when order book prices have settled down.

The exchange aims to introduce a "special period rule" - from 09h30 to 09h30 London time - to allow execution-only brokers to delay dealing in

a stock trading on an abnormally high spread rather than putting orders through irrespective of price.

"Brokers would not have a duty to wait [before dealing], because in some cases investors might get good deals [on wide spreads] but they would have to make it quite clear to clients that this option exists", said Martin Wheatley, head of markets development at the exchange.

Chemical industry agrees to cut fossil fuel use

By Leyla Boufior,
Environment Correspondent

The government yesterday unveiled a ground-breaking agreement with the chemical industry to help meet its ambitious target for combating climate change. In a voluntary pact with the government, the Chemical Industries Association committed the sector to a 20 per cent cut in fossil fuel consumption by 2005.

This is five years ahead of a government deadline for a 20 per cent cut in the nation's emissions of carbon dioxide, the chief greenhouse gas associated with global warming.

The government is refusing to disclose its strategy for implementing its domestic target until after international climate change negotiations next month in Kyoto.

Michael Meacher, environment minister, said: "Serious players in industry recognise that not only can significant energy savings be made but that it is in their own interests."

The agreement would lead to annual savings of between 0.5m tonnes and 1m tonnes of carbon dioxide compared with the 36m tonnes saving required by the government's target for the country as a whole.

Mr Meacher also warned the car industry that it might face the less palatable alternative of regulation unless it was more ambitious in negotiating with the European Union a voluntary agreement to promote more energy-efficient vehicles.

Meanwhile, John Prescott, deputy prime minister and chief environment minister, held out hope that any deal reached at Kyoto could survive big differences between the US and developing countries. The US Senate has warned it will not ratify any greenhouse gas reductions that are not mirrored by emission cuts for developing countries.

But Mr Prescott said the fact that the US would not have to submit an agreement for ratification to Congress for at least two years gave industrialised countries a "window of credibility" to persuade developing nations to follow suit.

"We need to show the colour of our money first," he said. Tomorrow he resumes efforts to help the US and Japan broker a deal by flying first to India and then New Zealand and Australia.

UK NEWS DIGEST

Liffe to move to new HQ in 2003

The London International Financial Futures and Options Exchange (Liffe) said yesterday that it aimed to move into its new headquarters near the City of London by the middle of 2003. The announcement came after planning permission for the building was given by Tower Hamlets borough council in the east London.

The exchange, however, has an option to sell the land back to the Corporation of London, the municipal authority for the City, if it decides not to go ahead with the project before 2002. The cost of the buildings would be between £150m (\$253.5m) and £200m in addition to the £40m price of the land. Planning permission was delayed last month, when the government reviewed the project following complaints by local residents and small businesses.

Samer Iskandar

FILM INDUSTRY

US studio in theme park venture

Warner Bros, the Hollywood film studio, and United News & Media, the newspaper and broadcasting group, are considering sites in the English Midlands as possible locations for a Warner Bros Movie World film production studio and theme park.

The two companies, which already run successful Warner Bros Movie World complexes in Germany and Australia, have been searching for suitable locations in the UK for more than two years. Initially, Warner Bros executives were eager to ensure that the complex should be close to London and Heathrow airport - making the film production studio more attractive and convenient for Hollywood stars and production crews. They have since found few sites near London that are big enough to meet their requirements.

Alice Rasthorpe

PUBLIC SECTOR BORROWING

Government repays \$9.6bn



The government was able to repay £5.66bn (\$9.56bn) of borrowing in October as buoyant consumer spending and business activity provided a silver lining to last week's cloud of higher inflation and a further rise in interest rates. Last month's surplus was £1.1bn higher than the £4.5bn repayment in October 1996. October's surplus caused the Public Sector Borrowing Requirement to fall to just £2.6bn for the year to date, a substantial improvement on the £11.2bn reached this time last year. With the UK economy operating at above-trend growth and headline unemployment falling to its lowest level in 17 years, Inland Revenue receipts soared by £16.4bn last month, an increase of £2bn compared with the previous year.

Richard Adams

PENSIONS MIS-SELLING

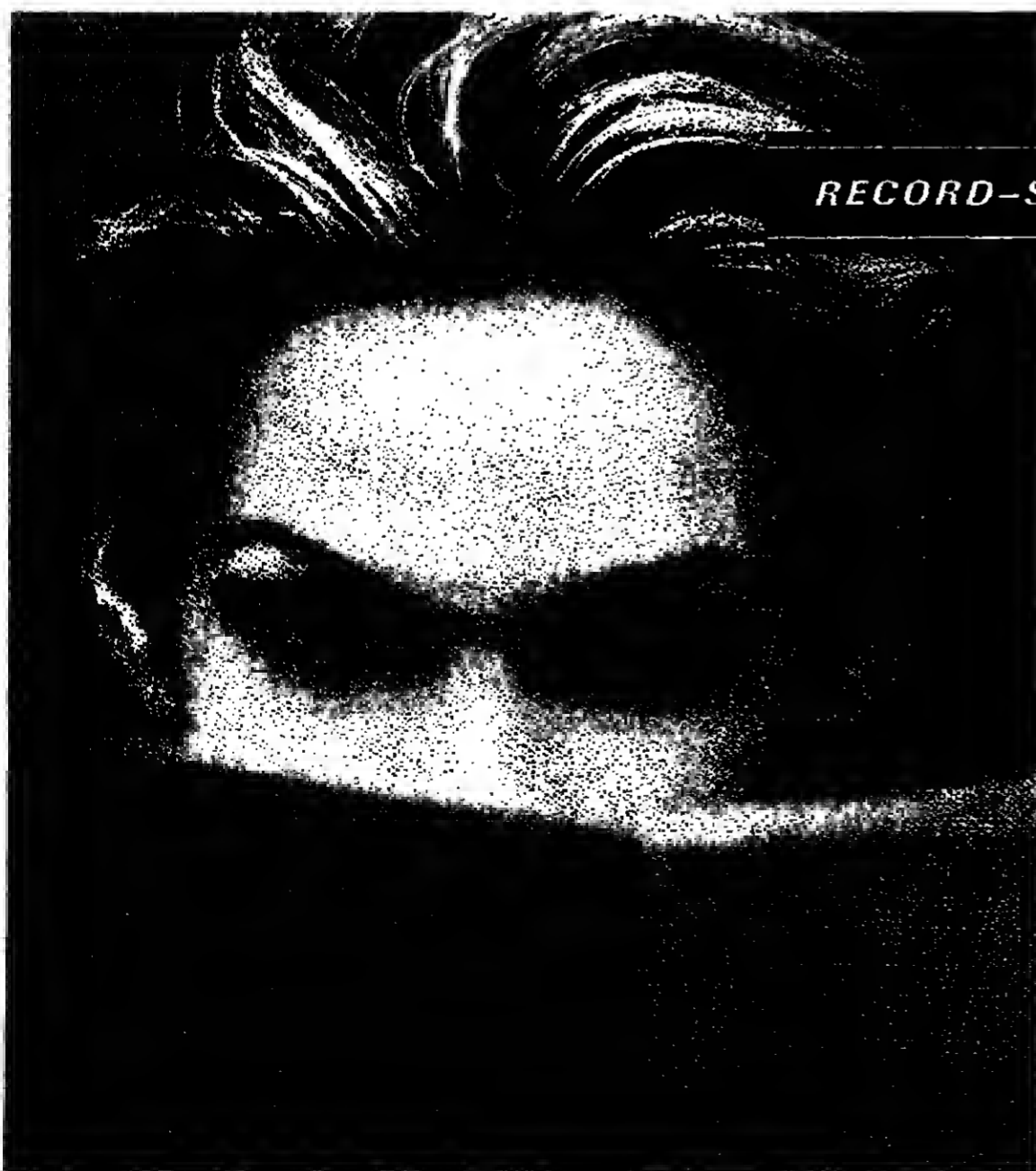
More sanctions on companies

Companies that fail to resolve their pensions mis-selling cases on time risk being excluded from involvement in the government's proposed "stakeholder" pensions for people in intermittent employment, the government announced yesterday.

Other sanctions would lead to individual directors being fined and expelled, companies having to advertise their misconduct, and - in extreme cases - companies being put out of business. The tough measures were outlined by Helen Liddell, economic secretary to the Treasury, in a new crackdown on laggards.

She called the debacle, which she said would cost the industry more than £2bn (\$3.38bn) to clear up, "possibly the most extensive scandal ever seen in our financial services industry".

Christopher Brown-Humes



Following the positive overall development in the first half of 1997, the VEBA Group was able to strengthen its upward trend in the third quarter.

RECORD-SETTING PACE SUSTAINED. READ ALL ABOUT IT.

Sales from January through September of 1997 increased almost 10% to DM 60.7 billion year on year. Pretax income rose 11.2% to DM 2,795 million.

OUTLOOK

We are confident of being able to match the level of earnings growth achieved in the first nine months for the year as a whole.

Group Highlights		Jan.1-Sep.30 1996	Jan.1-Sep.30 1997	Change
Sales	DM in millions	55,310	60,711	+ 9.8%
Pretax Income	DM in millions	2,513	2,795	+11.2%
Consolidated Net Income	DM in millions	1,227	1,380	+12.5%
Investments	DM in millions	3,650	4,163	+12.8%
Personnel	(Dec. 31, 1996/ Sep. 30, 1997)	123,391	130,068	+ 5.4%

EARNINGS DEVELOPMENT

Earnings growth primarily stemmed from high growth rates posted by Oil and Trading/Transportation/Services. The Electricity Division once again matched the previous year's very high level of earnings. By contrast, Chemicals reported earnings markedly below the result posted a year earlier especially due to the sharp decline in operating earnings in the silicon wafer business. As anticipated, the Telecommunications Division closed the period with a loss.

For further information, please contact us for a copy of our Interim Report at VEBA AG, Corporate Communications, Bennigsenplatz 1, D-40474 Düsseldorf, Phone: ++49-211-4579-600; Fax: ++49-211-4579-532; Internet: www.veba.com

VEBA

Big property sale planned by Duke of Westminster

By Norma Cohen, Property Correspondent

Grosvenor Estate Holdings, the property business of the Duke of Westminster and his family, is for the first time offering to sell a portfolio of properties located at some of London's grandest addresses in Belgrave and Mayfair.

The company, which is hoping to raise more than \$50m (\$84.5m) from the sale, says it intends to use the proceeds to further diversify its property holdings outside the UK, mainly in mainland Europe and South East Asia. Funds will also be used to refurbish some of the remaining properties.

Grosvenor said the company was selling "because we have got various ways in which we want to re-balance the portfolio". However, the company views its central London estate as the core of its property investments.

Grosvenor wants to expand its European property investments and plans to open an office in Paris where property is viewed as exhibiting the early stages of a recovery.

Other properties for sale

Property company annual reports and accounts have improved greatly in recent years, our Property Correspondent writes, but still fall short of providing the information that shareholders most want to know, a leading UK institutional investor said yesterday.

Alastair Ross Goodey, chief executive of Hermes Pensions Management and the newly appointed chairman of the RDO Stog Hayward Property Accounts Awards Panel, made his remarks while announcing the 1997 award winners.

"Today investors like to know the structure of the income and borrowings within a company, and are less likely to be influenced by photographs of the most beautiful investments," he said.

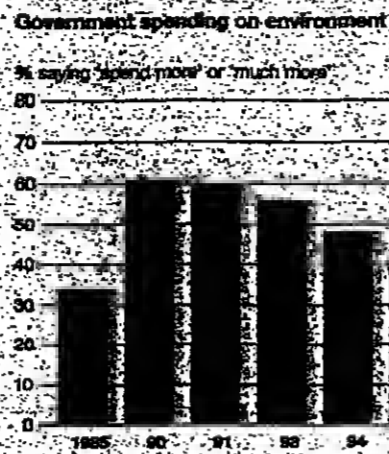
Institutional investors, lenders and property company analysts have long been critical of sector accounts, partly because valuations have not occurred with sufficient frequency and independence.

are located in similarly prestigious addresses associated with the Duke of Westminster's traditional family holdings including Grosvenor Crescent, Grosvenor Gardens, Grosvenor Place and Grosvenor Street. Office properties predominate but there are significant retail and residential sites as well.

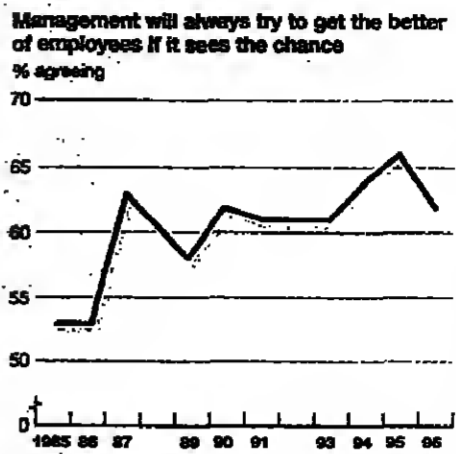
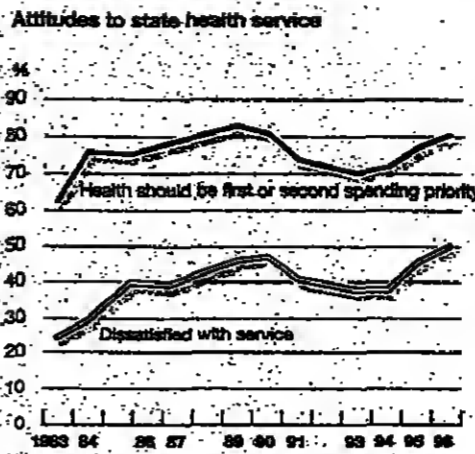
Just over half the properties are currently on leases earning so-called reversionary rents - rents agreed during the trough of the property market and likely to be raised significantly at the next rent review - while 36 per cent of the properties are rented at above-market rates offering little growth potential.

Social survey shows uncertain nation lacking faith in traditional political solutions

Snapshots of public opinion



Source: 14th British Social Attitudes Survey



Thatcher legacy is found to be fading

By Simon Buckley, Social Affairs Correspondent

The free-market values associated with Thatcherism seem to have had little lasting impact on the way Britons think and behave, this year's British Social Attitudes Survey shows. The report "finds little evidence that Thatcher's revolution ever took place".

The Conservative party was in power for 18 years until it was ousted by the Labour party in the May general election this year. Margaret Thatcher, now Baroness Thatcher, was prime minister for the first 11 of the 18 years.

The annual snapshot of how the British public see their world reveals an uncertain nation, lacking faith in traditional politics as a means to create a better quality of life.

The study suggests that people born in the 1960s but reaching adulthood in the 1980s and 1990s - frequently referred to as "Thatcher's Children" - are the least likely to agree with the prevailing political

views of recent Conservative governments, which included widespread privatisation of state industries and reductions in the powers of trade unions.

In fact, 43 per cent of such people identify with Labour and only 23 per cent with the Conservatives. Further, 80 per cent of them believe the gap between rich and poor in Britain is too wide.

Labour party values are also shared by more of those growing up in the 1960s - 45 per cent against 25 per cent - and those maturing in the immediate post-war years - 40 per cent against 33 per cent. Conservative values seem to be most deeply rooted only among the pre-war generation, where they lead by 38 per cent against 35 per cent.

Attitudes to the monarchy have shifted noticeably over the 14 years in which the survey has been conducted. In 1983, almost two-thirds regarded it as "very important" but by 1996 that view was held by only one-third of the population. Significantly, only one in five people under

the age of 30 take this view.

Compared with many other Europeans, Britons have "always been rather sceptical about the extent to which their political system is capable of delivering the goods", the study says. Yet since 1987, repeated surveys have observed this scepticism collapse into a lack of trust in politicians.

Today's survey argues that by 1996 fewer than one in four people trusted governments to put the national interest ahead of their party because of the experience of "political events such as elections". Last year, over a quarter of the population strongly agreed that political parties and MPs were out of touch with the needs of the electorate, an increase of more than 10 per cent in the past 10 years.

In spite of this collapse of trust in politicians, the study reveals "relatively high levels of self-confidence in ability to participate effectively in politics". Less than a quarter of people believe they have no say in what the government does - a very

similar level to that of ten years ago. Frustration with traditional politics combined with a personal desire to make an impact on events, the study suggests, are the classic conditions for unconventional political behaviour. For example, there is evidence of growing tolerance of road protests by environmentalists.

There is evidence throughout this year's report that people are anxious about the quality of their lives. The primary public policy concern for the vast majority is health. There is a clear relationship between dissatisfaction with the state health service and willingness to invest more in it - even when people are told their taxes would have to rise to pay for it.

There seems to be a far greater reluctance to take action to protect the environment. For instance, the survey exposes the transport paradox that many individuals want fewer cars on the road, but only so they themselves can drive in less congested and polluted traffic.

Employees seek greater say in workplace

British workers want a greater say in their workplace, our Employment Editor writes. That desire is a response to what they see as a "deterioration in employment relations, managerial performance, job security and their involvement in decision-making", the survey says.

"Tackling these issues will require concerted effort and new thinking from the government in collabora-

tion with the trade unions and employers," it argues. The percentage of people believing that the unions have "too much power" have fallen from 54 per cent in 1985, the peak of Margaret Thatcher's reforms, to 15 per cent by 1996.

The study suggests unions "need to do more to pursue employees' demand for a greater say in the workplace" and this may have to be

achieved through the development of new consultative structures such as European-style works councils.

The survey found continuing strong employee commitment to work. Only 30 per cent of those surveyed agreed they would not bother to work if they received a reasonable income and two-thirds disagreed with the view that "work is just a means of earning a living".

Evidence of worker discontent with workplace governance is hard to find. Only 20 per cent last year said their relations with management were "not very" or "not at all good" and 22 per cent that their workplace was "not well managed". On the other hand, 62 per cent believed "management will always try to get the better of employees if it gets the chance".

London upturn 'is greater than that of 1980s'

By Brian Groom in London

London is in the throes of a development upturn greater than that of the 1980s, with arts, heritage, sport and leisure projects worth £5.6bn (\$8.45bn) planned or underway, according to a new survey.

London First, the business campaign group, says the total of investments has grown by 22 per cent, or £1bn, in just eight months since its last survey. Projects funded by money raised through the National Lottery account for £2.6bn of the total, while non-lottery investments add up to £3bn.

London First hopes the fact that the developments are spread over a wider area and more sectors than in the 1980s will prevent the economy from overheating, but warns: "In some areas, particularly where developments do not have their own unique selling point, it may mean high levels of bankruptcy when we encounter another downturn."

Launching the report, entitled *London - The Millennium City II*, Chris Smith, the chief culture minister, said: "London finds itself in an enviable position among cities. It has a wealth of creative talent, born of creative and social diversity, and a benign economic climate."

The report raises concerns. Some major projects have still to find sites. Shortages of skilled labour in the construction industry are becoming more acute and could lead in wage inflation, especially as deadlines approach.

Many projects have started before all the necessary funds have been secured, raising the possibility that London will be scarred with half-finished developments. Above all, the Underground railway is suffering from lack of funds and has a £1.2bn investment backlog.



If you want to go to Milan, we suggest you stay in the City.

Only Alitalia takes you to Milan directly from London City Airport.

We're doing everything we can to help you save time. Now, if you're flying from London to Milan, you can rely on the great convenience of London City Airport, the airport on the Thames just a few minutes from the center of London.

At London City, everything is quicker: no queues, no waiting. It only takes fifteen minutes for your departure

LONDON CITY - MILANO LINATE	
06:00 A.M.	08:00 A.M.
MILANO LINATE - LONDON CITY	
07:25 A.M.	09:00 A.M.

Flights operated Monday to Friday by Azzurra Air

and, on your return, just few minutes to leave the airport from the moment you land. In no time at all you're back in the center of London.

With these new flights from London City Airport, there are now 9 Alitalia services from London to Milan every day of the working week. Only Alitalia can offer you so much.

Alitalia

INFORMATION TECHNOLOGY

Nicholas Denton · Comdex report

Computers in disguise

Bill Gates, the chairman of Microsoft, may love his personal computer. He kicked off this week's Comdex computer trade show with a list of 10 reasons why he did. But with PC penetration stalled at about 42 per cent of US households, according to the latest study, the computer industry is morphing the form of its products in search of a broader market.

Hence some of the products that attracted the most interest in the cavernous halls of the annual Las Vegas computer fair: a network car, a television set with built-in Internet access and a digital dictating machine among others. Each product relies on a personal computer either contained within or connected through a network.

The emergence of these products can be seen as the ultimate triumph of the PC over dumber appliances. However, even if these devices are part of the PC family, they bear little physical resemblance to their ancestor: the desktop computer which, operated largely by Microsoft's software, is so much the object of Mr Gates' affection.

Microsoft is well hedged against this development as well as unveiling an improved version of its Windows CE operating system for hand-held computers at Comdex, the company's WebTV subsidiary will this week begin selling a keenly-awaited device to bring Internet access to television sets.

Meanwhile, new software from Microsoft called Hydra allows large server computers to co-ordinate the cheap terminals announced at Comdex by several manufacturers such as Network Computing Devices.

Moreover, the challenge from the network computers backed by Microsoft's rival, Oracle - the lean Internet terminals which were the focus of last year's Comdex - appears to have ebbed, judging by the paucity of exhibits this year.

And the desktop computer, the traditional bastion for Microsoft's software, continues to progress.

A company called Immersion, for instance, displayed a new mouse that pushes back at users to give them the ability, not just to point and click, but to touch.

Nevertheless, even as Microsoft's Windows software becomes the uncontested standard for operating the basic functions of desktop computers, new devices are appearing for which the operating system may not be suited. The best example is the personal organiser. Despite Microsoft's attempt to provide the standard operating system for these devices, the Palm Pilot from 3Com, which uses its own proprietary software, has outsold all the Windows CE devices combined by a ratio of two to one.

Another new category of PC emerged at this year's Comdex: what some call the ultra-ultra-portable, skinnyp laptops operated not by Windows but by Windows CE.

The PC has mutated in other ways too. International Business Machines, as well as launching a dictation machine with Olympus con-

Sales-hungry PC makers are using their technology to enhance other products



Comdex theme: the PC must 'become more appliance-like'

figured to download recordings into its voice recognition application, unveiled what it called a "Network

Vehicle." The car, developed together with Delco Electronics, Netscape Communications and Sun Microsystems,

accesses the Internet through a satellite connection and projects maps and vehicle information indicators on to the windscreen.

And, in an address to the Comdex conference, Eckhard Pfeiffer, chief executive of computer manufacturer Compaq, described his vision of a home with electronic commerce devices in the kitchen, video-conferencing terminals, and infotainment consoles in the living room, all tied together with a cheap but powerful "home server" computer.

Mr Pfeiffer said: "The PC is too complex and imposing for many customers. For the market to keep growing, the PC has got to become more appliance-like."

The computer industry has engaged in earlier bouts of enthusiasm for information appliances and pen computers, notions which inspired ventures such as Diba and Go, without many viable products being realised.

The attention devoted to these variants of the PC may have something to do with the relative dearth of enhancements to desktop computers at Comdex, which has left commentators struggling in their annual task of defining the theme for the event.

Nevertheless, this confusion does itself suggest one possible conclusion. The personal computer, as it becomes truly ubiquitous, is splintering into a range of devices, mutating in some cases beyond recognition, which may help technophobes consumers to find, like Bill Gates, a few things to love.

Touch-screen service

Australian shoppers visiting malls can arrange their mortgages, talk to life insurers, pay their credit card bills or even buy a house - all at the touch of a button.

A touch-screen system called Fastway, which the makers claim is the world's first multifunction electronic commerce system, has been launched with the installation of interactive terminals in shopping centres in Australia.

The terminals have been developed by Fastway Electronic Commerce, an Australian company that hopes to list its shares in Australia in January, followed by a Nasdaq listing later next year.

The touch-screen system offers products from financial services companies such as Macquarie Bank, American Express and New Zealand Insurance, as well as an estate agent.

A video facility allows users to talk directly with the companies by dialling via the screen and speaking through the attached telephone handset.

They can receive printouts such as pre-approvals for mortgages. The video link also allows, for example, prospective house buyers to look at the properties on offer onscreen.

The software, which uses 64-bit technology, took two-and-a-half years to develop and offers images of near-broadcast quality.

Colin Hendrick, chief executive of Fastway, says such facilities give the system an advantage over the Internet. Downloading is almost instant and the service guarantees greater security and interaction. By placing the system in shopping malls, Fastway reaches beyond computer owners. "We see this as having more immediate access to the mass market than the Internet."

He foresees the system being able to sell entertainment tickets and hopes that a link with the Australian Stock Exchange will soon allow customers to trade shares.

The terminals have been on trial since February and Fastway plans to install 100 units at 31 sites across the country. It also proposes to install a network of about 500 terminals in the US in the next 18 months, and is holding talks about sites in Shanghai, Hong Kong and Kuala Lumpur.

Each terminal costs about

A\$40,000 (£16,383) in Australia. Fastway does not charge service providers for being included on the system, taking instead a percentage of the financial transactions that are conducted on it.

Other services to be added shortly include the facility to pay utility bills direct from bank accounts, credit cards or smartcards, car purchases and job searches through an appointments noticeboard. Mr Hendrick says the video conference facility will allow job seekers to have their interviews directly on the system. The system can also carry street directories and entertainment listings.

The company has experienced one teething problem - children. School holidays and afternoons see the greatest number of nuisance calls, says Mr Hendrick.

However, he says: "While children are a problem, they are also our greatest advertisers." Children playing on the system will tell their parents of everything it offers and point them towards it when they visit them.

The security checks mean there is no danger of parents finding they are suddenly the owners of a five-bedroom house with swimming pool, he says.

Elizabeth Robinson

Millennium Watch · Ian Hugo

Grey compliance area

Bland assurances from IT suppliers can be dangerously misleading

All kinds of organisations are avidly seeking assurances of compliance from their IT suppliers, but many are laying themselves open to serious misunderstandings when they do so. Bland assurances of compliance can be downright dangerously misleading.

For instance, assurances of compliance have been given by some suppliers, generally electronically and thus ephemeral, and subsequently withdrawn. Even substantiated assurances of limited relevance, as are compliance definitions.

The latter are as long as a piece of string. At one end is the idea that software is compliant if it can be used in a way that will not cause century date-change problems. It may, and probably does, have facilities within it that could make the software

non-compliant, but if businesses are aware of all the traps and avoid them they can use the software in a compliant manner.

At the other end is the notion that the software will actively prevent people using it in a way that causes compliance problems. Short of changing the code supplied, companies can get their most naive users and most creative programmers loose and still be safe.

Between these extremes there is a large grey area, and without further questions, it is impossible to know to which shade of grey any assurance of compliance applies. The usual defence against this is to resort to a definition of compliance, such as BS1 PD2000-1 from the UK's British Standards Institution. That is useful as a common basis for discussion but does not allow any inferences about use of the software; it cannot because potential uses are too various.

An analogy can be made between software compliance and a certificate of roadworthiness for a vehicle, with programmers/users as drivers.

The certificate indicates that the vehicle will not endanger the driver or passengers.

But it makes no assertions on the competence of the driver, of other cars and drivers or on road conditions.

Similarly, businesses can make no assumptions on the basis of even a substantiated claim of compliance that the software will operate without Year 2000 errors in the hands of their own programmers, in association with other software and programmers or with other IT platforms.

Businesses must understand this if they are to avoid making wrong assumptions on the basis of compliance claims.

Above all, they must not presume that compliance in

itself resolves all IT problems.

So, what should businesses do? The short answer is that they must understand precisely what the supplier means by compliance in the case of every piece of software and every platform they use.

A general definition is a good basis to start from but a lot more detail will be needed to sort out how effectively software and platforms, compliant to different definitions, will work together.

This work can only be done by a specifically contracted agency. A good starting point, for those with access to the Internet, is the www.zeblon.co.uk website, which includes information on compliance.

Ian Hugo is a member of the executive of Taskforce 2000 in the UK and editor of Millennium Watch, the newsletter which it sponsors.

Eagle Eye · Louise Kehoe

Microsoft moan

Individual PC users may well wonder if they will be winners or losers when all the shouting dies down



Elsewhere in the world people may be talking about the gyrations of the stock market, Asian currencies or the Middle East but here in the Silicon Valley, Microsoft is topic number one.

Is the "Redmond gang" a bunch of bullies who should be curbed by the US Justice Department antitrust squad or a "national treasure" that the government should leave well alone?

There is no middle ground in these debates. To Microsoft's competitors it is the evil empire, while Microsoft collaborators - and there are many of them, although they have been less vocal - see the world through rose-tinted windows. Amid all the rhetoric, one important constituency has had no voice. Individual personal computer users may well wonder if they will be winners or losers when all the shouting dies down.

If the Justice Department has its way, Microsoft might no longer be allowed to offer its Internet Explorer browser program as a free adjunct to Windows. Users may have to pay for the software and install it separately. It is difficult to see how this could be to the immediate advantage of consumers, but antitrust experts remind us that the principles of fair competition are at stake. Microsoft's tough tactics in the "browser wars" have taken the wind out of Netscape's sails and could eventually, perhaps, submerge the Internet software pioneer.

The Justice Department wants to preserve competition in these waters. But, from the perspective of an individual PC user, Netscape is already taking a different tack. The company is focusing most of its efforts on users of corporate intranets and extranets, rather than consumers.

Contrary to popular opinion, Netscape's software is not free. Individual users must pay \$49 for the latest:

Netscape Communicator program and more if they want support and upgrades. Even if you are willing to pay this premium, there can be problems. When I tried to buy the Netscape software, a glitch in the online purchase system prevented me downloading the program. It took 10 days to sort out the problem. In the meantime, I downloaded Microsoft's IE 4.0 for free.

I think of Netscape as the cyber corner shop threatened by competition from a supermarket chain store. Netscape has built up a regular, loyal clientele of millions of PC users. So long as it provides superior service and convenience, customers will keep coming back - even if its prices are a little higher. But if the shop closes early, or does not pamper its customers, they will go elsewhere. Is that fair? Perhaps not, but it is the way the market works. Once the supermarket is built, the corner shop must adapt. Instead, Netscape is bent on protesting about the supermarket's incursions on its territory. Even with the Justice Department on its side, Netscape is fighting a losing battle.

IBM, Netscape, Sun Microsystems and Delco have

The Network Vehicle

says more about the lifestyles of Silicon Valley techies than future market trends

joined forces to create a Network Vehicle of Tomorrow, displayed at the giant Comdex show in Las Vegas this week (see main article on this page).

The idea is to enable commuters to use their time better. Drivers can verbally request and listen to e-mail messages being read out loud. They can dictate memos and electronically distribute them, request sports scores or music, or ask for directions to a specific location.

All this while keeping their eyes, if not their minds, on the road.

The car was a show stopper in Las Vegas, but it says more about the lifestyles of Silicon Valley techies than future market trends. To find affordable housing, many of the region's engineers and programmers live long distances from their places of work. Most commute alone for an hour or more on increasingly congested highways. Being "offline" - or disconnected from the Internet - is the biggest frustration they face while stuck in traffic.

The rest of us may be happy to while away our commute hours listening to a local radio station or making phone calls, but for true digital citizens it is painful to be disconnected for so long.

Their e-mail, I have to assume, is a lot more compelling than mine.

We all know what they say about statistics. Much of the data concerning the size and rate of growth of high-tech markets is, to put it politely, optimistic. Often, the groups publishing the figures have a vested interest in providing a positive view of a particular market segment. In other cases, industry studies use statistics selectively to prove a point.

In contrast, the American

Electronics Association's new Cybernation report, published this week, (www.aeanet.org) takes a deliberately conservative approach.

"Our guiding principle was 'when in doubt, leave it out,'" says Bill Arcey, president and chief executive. Thus products made in the overseas plants of US companies are not included in export data, nor are transfers of software to foreign customers over computer networks - although these are valid export sales, they are difficult to quantify.

For sure, the AEA has an agenda. The industry trade group believes that lawmakers and regulators are woefully ill-informed about the size and economic importance of high-tech. It has produced the Cybernation study to provide them with reliable and comprehensive industry data. The report is a mine of information useful to anyone with an interest in the industry or broad economic trends.

The study shows, for example, that the European Union is still by far the biggest export market for US high-tech producers, despite the industry's current obsession with Asian markets. The second-largest export market is Canada.

A few more AEA facts: the US high-tech industry was the single biggest industry in the US in 1996, based on factory shipments and services revenues. The US exported \$150bn in electronics products in 1996, making high-tech the country's leading goods exporter ahead of all types of transportation products - from cars to aircraft. High-tech exports nearly doubled between 1990 and 1996 from \$77bn to \$150bn.

Share your views in the Eagle Eye discussion group on the FT web site (www.ft.com) or contact Louise Kehoe by e-mail on louise@ft.com



Get personal with the latest in video communication software

OneMail enables you to bring email alive by sending high quality, personalised video messages. And even your Grandma will admit that it's the most exciting and effective way of keeping in touch.

All you have to do is record your message, drag the video file onto your email, and send it as an attachment. OneMail produces high quality video and audio up to 15 frames per second, then automatically compresses it into tiny files.

OneMail is a software-only application that works with all major video cameras and capture cards, all network and internet email services and all major applications that support file attachments.

OneMail is so easy to use, you can do it standing on your head. Just ask Grandma, who even on a pension can afford it at just £79.99.

Video 32 brings live, full colour video conferencing to your desktop, enabling you to talk face-to-face with people anywhere in the world!

Combine Video 32 with Microsoft NetMeeting® and you can even exchange files or work on the same document simultaneously while you talk. Like OneMail, Video 32 is a software-only application which requires no special equipment. All you need is a video camera connected to your PC and a link to the Internet, Intranet, LAN, WAN, ISDN, or direct dial modem-to-modem.

Thanks to Video 32, videoconferencing can be a seamless part of your working life. It's as easy as talking to people in the same office. And it's available NOW at £199.99 - just don't let Grandma in on the secret.

Baraka Intracom (UK) Ltd
T: 0171-937 8066 F: 0171-795 6512
www.baraka-intracom.com



Baraka Intracom
Vision in communications

as seen on
PC

ARTS

Theatreland sports a different outlook

Brendan Lemon finds the theatres of 42nd Street are being modernised to offer visitors a better service – for a price

When the United States Tennis Federation opened its stadium in New York City, just in time for the US Open, the beauty of its retro-brick architecture was eclipsed by criticism about the luxury boxes occupying the facility's most coveted levels, forcing many long-time ticket holders out of their courtyard locations.

But the grumbling died down quickly; the federation was merely following a familiar American sports trend in which team owners constructed amenity-laden enclaves to maximise profits.

In today's business parlance, this is known as product differentiation. You increase business not by raising prices and alienating the average consumer but by adding features

to attract the upper-income buyer – at a surcharge.

It is a wonder that the commercial theatre has never adopted such thinking. Except for the occasional show about felines or a phantom, profit margins in this sector of the entertainment business are notoriously small. Now, however, the concept of a luxury box is crossing over from America's sports to Shakespeare.

In December, *Ragtime: the Musical* begins performances at New York's new Ford Center for the Performing Arts – one of the grandest attempts to enlarge the Broadway theatre district by renovating the once glorious show palaces along 42nd Street. Fifty tickets a performance, at \$125 each, will be sold as "VIP suite service." (The average price for good seats on Broadway is about \$75). This service will include prime seats in the stalls

and the use of a private suite below the theatre's lobby, where ticket holders may leave coats, enjoy complimentary cocktails and use queue-free restrooms.

Garth Drabinsky, chairman of the theatre's Toronto-based developer Livant, has incorporated the concept successfully in some of his Canadian theatres. Early sales indicate it will be equally attractive in New York.

How to explain this rush for the royal enclosure? Some patrons, Mr Drabinsky answers, will always prefer to fly first class. "They want an evening out that is 'complete, from the moment they walk in to the moment they leave'." The only reason, he continues, that the theatre has taken so long to learn from the sports world is that space limitations at Broadway houses, many of which were built a century ago,

have prevented the provision of a pampered environment.

Why, then, have other companies renovating 42nd Street theatres decided not to embrace the concept? "The reasoning is partly philosophical," says Chris Boneau, of the New Amsterdam Theatre which recently reopened after a renovation by its owner Disney. It will soon begin performances of its first fully-fledged stage show, a live version of *The Lion King*. "It is dangerous to create a perception of theatre as something elitist, like opera," Mr Boneau adds.

"Such an image puts a lot more pressure on a show to be life-changing rather than merely enjoyable."

Others, however, have argued that Broadway ticket prices have long been out of reach to the average citizen. They say the advent of VIP services, like the

private suites available to valued patrons at many opera houses, only confirms that fact. And aren't those who question privileged service often the first to praise it when they, too, have a chance to nibble caviar behind closed doors?

"The issue here isn't private suites at 42nd Street theatres but what that says about the changes in the neighbourhood as a whole," says Hal Rubinstein, a New York magazine columnist and Gotham "trendspotter".

"Everything in the neighbourhood has become corporatised. Instead of vintage clothing stores you have the Gap; instead of irreplaceable second-hand music sellers you have the Virgin megastore; and instead of slightly dubious peep shows, which at least provided cheap thrills that a businessman couldn't find in the heartland, you have theatres named after

the Ford Motor Company. Times Square has become an American shopping mall. All it lacks is a roof."

But one could just as easily argue that, by cleaning up Times Square, New York is only trying to redefine itself the way other northern American cities have: by attracting visitors from all hands of the economic spectrum. If the American city has become a theme park it is only because it has a vital stake in ensuring that tourist dollars do not flow exclusively to more established entertainment centres in Florida or California.

There is still variety behind all the flash of New York neon. 42nd Street continues to offer lots of inexpensive, adventurous fare. Just down from the Ford, for instance, the Selwyn Theatre

will soon be the base for the Roundabout, one of Manhattan's best classical companies. A little further along the invaluable and very serious Signature troupe has at last found a home.

There is a range of ticket prices, too. Value-seekers may rely on the half-price ticket booth in Times Square, and the extravagant may ring up their favourite ticket broker. In spite of predictions that the VIP concept will cut into the latter's livelihood, brokers are not about to fold.

"For the VIP service, a company must set things up in advance," Mr Boneau says. "But if you're coming into New York on unexpected business and want premium tickets to that new musical, the broker may still be your only solution. And a broker's price for tickets may make the VIP rate seem positively a bargain."



Ute Lemper and Ruthie Henshall in a new production of the musical 'Chicago', which opened at the Adelphi Theatre, London last night

Opera/Richard Fairman

Otello and friends

The next stop for the wandering minstrels of the Royal Opera is London's Royal Albert Hall for a one-week season. There are to be five fully-staged performances of Verdi's *Otello* with alternating casts, and two gala concerts.

Otello was a good opera to pick. There is a lofty grandeur to it that aspires to a hall of this size and the Royal Opera's very traditional production by Elijah Moshinsky looked magnificent. It cannot be easy trying to replicate sophisticated lighting with limited facilities, but the result was impressive – even down to Otello's invocation of the stars, for which spotlights turned the hall's flying saucers a rather lurid purple.

The Royal Opera has wisely elected to play this production on a specially constructed stage with a makeshift pit rather than in the round, but the acoustic still plays funny tricks. Both at the opening night of *Otello* on Monday and the first of the gala concerts the conductor Jacques Delacôte had to expend a lot of effort just to keep the orchestra together. Was it under-rehearsed or could they not bear each other? I am inclined to allow them the benefit of the doubt, as Delacôte gave a sleek and swift performance. It was not his fault that most of the orchestral detail was swallowed up.

Like the previous in-house productions, this one used microphones and from my seat, the sound system left the singers winning hands down. Vladimir Bogachov, the Otello, has a strong voice anyway and here his throaty Russian tenor roared mightily. He can shape a nice vocal line, but not as often as one would like. The soft singing slipped into a croon and at the big moments he shouted.

Daniela Dessi's Desdemona was sensitive and alive to the words. But Verdi wanted vocal beauty in this role, and that her edgy

soprano cannot supply. Sergey Leiferkus is a known quantity as Iago and his insinuating slogging set even more shivers down the spine than usual. Bonaventura Bottone was an able Cassio and Andrea Silvestri a booming Lodovico. After the cut-price tat we have been served before at the Royal Albert Hall, this ranks as the first serious attempt at opera for the masses.

The gala concert was advertised as a "night with the stars", which was testing the description rather. What we had was not so much any stars of today as an intriguing mixture of "could-bes" and "has-beens". Among the former, the Greek-German soprano Irene Carli will have alerted talent-spotters with her beautiful, well-produced, even voice. Even without trills, her arias from *Il trovatore* and *Anna Bolena* had a grace and amplitude of vocal means that should distinguish her from the pack. The Bulgarian Zvetelina Vassileva spun a fine line in her lighter soprano arias. A couple of the more established names wrestled with frogs in their throats, but Rosalind Plowright defied her doubters with a largely trouble-free and imposing extract from Spontini's *La Vestale*.

It was a shame there could not have been more ensembles. It was only at the end that a defiant Agnes Balza and the young tenor José Cura set the sparks flying with their fiery duet from *Camilla* rusezanza. Having already won friends by taking on extra slots on behalf of indisposed colleagues, the charismatic Cura sang with a proud passion that carried off the evening single-handedly. In the star stakes, he is definitely a "will-be".

Performances of *Otello* daily at the Royal Albert Hall, London SW7 until Saturday, except for Thursday, which is the second gala concert.

Musical

The Lion conquers Broadway

When Disney announced last year that it had hired the avant-garde director Julie Taymor to direct its New York stage adaptation of the titanically successful animated film musical *The Lion King*, many heads were scratched, writes Brendan Lemon. What could a woman who had spent years in Bali studying puppetry and dance, and whose only previous Broadway production had been a "carnival Mass", bring to a cartoon that had generated film in worldwide revenue in large part because of the cheery pap of its Elton John-Tim Rice score? To protect its investment, wouldn't Disney force Taymor to turn out something on the order of the theme-park staging that the company had produced in its only previous movie-to-musical adaptation.

Well, *The Lion King* has just had its New York opening, and those who seriously doubted Taymor's intention to maintain her artistic integrity under corporate pressure have now zipped their lips. Her mask-and-puppet-laden production is an absolute triumph of visual imagination – so moving, colourful, and elaborate that every other show in town suddenly looks grossly malnourished.

Taymor's main task here was to make *The Lion King* a legitimate live theatre event, not merely a duplication of the film. She has kept the movie's basic story – the young lion prince

Simba loses his father, Mufasa; spends years in exile as his evil uncle, Scar, ravages the kingdom; and returns to resume his place as enlightened monarch – but has added deeper social and psychological resonances. The teenage lioness Nala's role has been enlarged, giving her a redemptive struggle almost as important as Simba's. Rafiki, the aboriginal baboon, undergoes a successful sex change (male to female). And Uncle Scar becomes an even more majestically evil, fascist aesthete.

Taymor's most difficult assignment, and the one in which she has not been wholly happy, involves the

show's music. The best-known numbers, the thematic "Circle of Life" and the embarrassingly affecting "Can You Feel the Love Tonight?" have been beautifully staged, and the music punched from the movie's related album, *Rhythm of the Pride Lands*, is powerful in its Zulu text and South African choral harmonies, but John and Rice's new songs are for the most part uninspired. Scar's patter number, "Be Prepared", is particularly dull in its Gilbert-and-Sullivan mannerisms.

But, strange to say for a musical, the song weaknesses are immaterial. Pageantry is the point here, and Taymor delivers visual coup

after visual coup. The opening procession up the aisles of the recently restored New Amsterdam Theatre offers more animals than the Ark. A giant gold mask comes together out of what seem to be shadows. A stampede of wildebeest is conveyed by means it would be criminal to reveal. And just when you think Taymor and her designers (sets, Richard Hudson; lighting, Donald Holder) have exhausted themselves, an unexpected combination of colour – bright orange, jungle red – brings tears to the eye. As if aware that the profusion of bold tints might prove too blinding, one of the comic characters says that the set

"looks like a shower curtain from the Guggenheim." (The show's book writers, Roger Allers and Irene Mecchi, are unafraid of self-deprecation.)

Although many *Lion King* cast members are required to operate ingeniously constructed puppets, they themselves are not mere puppets of their director's vision. Jasoo Raize (Simba) and Heather Headley (Nala) give especially rich characterisations, aided by the vocal arrangements of Lebo M and the erotic (at least for Disney) choreography of Garth Fagan. But the evening belongs to its director. Through a miraculous alchemy of ingredients, she has made a musical that appeals to both children and adults, and that satisfies both lovers and haters of Broadway musicals.

New Amsterdam Theatre, New York.

INTERNATIONAL ARTS GUIDE

AMSTERDAM

OPERA
Het Muziektheater
Tel: 31-20-551 8911
Costi Fan Tutti: by Mozart. Nederlandse Opera production, conducted by Ivor Bolton in a staging by Jürgen Flimm, with an entirely new cast; Nov 21, 24

BERLIN

OPERA
Deutsche Oper
Tel: 49-30-34384-01
Aida: by Verdi. Staged by Götz Friedrich, with sets and costumes by Pet Halmen; Nov 22

COPENHAGEN

EXHIBITIONS
Louisiana Museum of Modern Art, Humlebaek
Tel: 45-4919 0719
www.louisiana.dk
Alberto Savinio, Paintings 1927-1952: around 30 still lifes, landscapes and mythological

compositions by the relatively unknown brother of da Chirico. His work combines abstract and figurative elements, and in many ways parallels da Chirico's own; to Jan 11

HOUSTON

EXHIBITIONS
Museum of Fine Arts, Houston
Tel: 1-713-638 7750
The Dark Mirror: Picasso, Photography and Painting. More than 300 works, the majority of them photographs, which will illustrate the relationship between the various media in which Picasso worked. The display includes studies of works in progress, self-portraits, and photographs of Rousseau and Braque. The exhibition has been seen in Paris and will travel to Japan; to Feb 1

LONDON

CONCERTS
Barbican Hall
Tel: 44-171-638 8891
● The Sibelius Cycle: Sir Colin Davis conducts the London Symphony Orchestra in a programme including Symphony No. 5 and Symphony No. 4; Nov 20
● The Sibelius Cycle: Sir Colin Davis conducts the London Symphony Orchestra in a programme including Symphony No. 5. With soprano Katarina Dalayman; Nov 23

OPERA
English National Opera, London Coliseum

Tel: 44-171-632 8300
● Falstaff: by Verdi. This co-production with Opera North, first seen in Leeds, is conducted by Dohnányi and directed by Matthew Wurchus. Cast includes Alan Opa in the title role; Nov 19, 21, 24
● The Magic Flute: by Mozart. Nicholas Hytner's English National Opera production, revived by David Fitch and conducted by Christopher Moulds; Nov 20, 22

Royal Albert Hall
Tel: 44-171-5898212
The Royal Opera: *Otello*, by Verdi. Conducted by Jacques Delacôte in a staging by Elijah Moshinsky; Nov 19, 21, 22

Shaftesbury Theatre
Tel: 44-171-379 5399
The Royal Opera: *Il barbiere di Siviglia*, by Rossini. New production staged by Nigel Lowery; Nov 24

LOS ANGELES

CONCERTS
Dorothy Chandler Pavilion
Tel: 1-213-872 8001
Los Angeles Philharmonic: conducted by Paavo Järvi in works by Tüür, Mozart and

Mahler; Nov 21, 22, 23

OPERA
L.A. Opera, Dorothy Chandler Pavilion
Tel: 1-213-972 8001
www.laopera.org
Countess Maritza: by Kálmán. Premiered in Santa Fe this summer, this lively production by Linda Brovsky stars Ashley Putnam and is conducted by John Crosby; Nov 22

MADRID

OPERA
Teatro Real
Tel: 34-1-516 0600
La Monnaie: touring production of Britten's *Peter Grimes*. Conducted by Antonio Pappano in a staging by Willy Decker; Nov 20, 22, 23

NEW YORK

EXHIBITIONS
Metropolitan Museum of Art
Tel: 1-212-879 5500
www.metmuseum.org
Wordrobe: show exploring the relationship of fashion to self-expression in language; to Nov 23

OPERA
Metropolitan Opera, Lincoln Center
Tel: 1-212-362 8000
www.metopera.org
● Don Giovanni: by Mozart. Production by Franco Zeffirelli; Nov 21
● The Rake's Progress: by Stravinsky. New production by Jonathan Miller, conducted by

James Levine. Cast includes Dawn Upshaw and Samuel Ramey; Nov 20, 24

New York City Opera, New York State Theatre
Tel: 1-212-870 5570
www.nycoopera.com
● La Bohème: by Puccini. New York City Opera. Conducted by George Manahan and staged by Grazia Sciuti; Nov 20, 21, 22, 23
● Marco Polo: by Tan Dun, premiered in Munich last year. New production by the New York City Opera conducted by the composer and directed by Martha Clarke; Nov 19, 22

PARIS

DANCE
Opéra National de Paris, Palais Garnier
Tel: 33-1-43436696
Paris Opera Ballet: mixed programme – Soir de fête by Staats, L'Arlésienne by Petit, and La Symphonie fantastique by Massine; Nov 19, 21

EXHIBITIONS
Musée Carnavalet
Tel: 33-1-4272 2112
Paris and the Parisians in the time of Louis IV: more than 300 engravings, which together create a vivid impression of 17th century Paris; to Jan 18

OPERA
Opéra National de Paris, Opéra Bastille
Tel: 33-1-4473 1300
Der Rosenkavalier: by Strauss. New production conducted by

Edo de Waart in a staging by Herbert Wernicke. Cast includes Renée Fleming, Susan Graham and Barbara Bonney; Nov 20, 23

SAN FRANCISCO

OPERA
San Francisco Opera, War Memorial Opera House
Tel: 1-415-864 3330
www.sfoopera.com
● Eugene Onegin: by Tchaikovsky. Yuri Temirkanov conducts his 1980s Kirov Opera production, with a cast including Anthony Michaels-Moore and Elena Prokina (replaced by Nicole Foland on Nov 29); Nov 19, 22
● Guillaume Tell: by Rossini. Conducted by Patrick Summers in a staging by Löffi Mansouri. Cast includes Patricia Racette; Nov 21, 24
● Pelléas et Mélisande: by Debussy. Conducted by Donald Runnicles in a production by Colin Graham. Frederica von Stade and Simon Keenlyside sing the title roles; Nov 20, 23

TOKYO

CONCERTS
Suntory Hall
Tel: 81-3-3289 9999
● Ivo Pogorelich: recital by the pianist of works by Brahms, Granados and Prokofiev; Nov 19
● Staatskapelle Berlin: conducted by Daniel Barenboim in symphonies and piano concertos by Beethoven; Nov 23

OPERA
NHK Hall
Staatsoper Unter den Linden: Die Walküre, by Wagner. Conducted by Daniel Barenboim; Nov 21

OPERA
Washington Opera
Tel: 1-202-295 2400
www.dc-opera.org
Pagliacci: by Leoncavallo. New production by Franco Zeffirelli, conducted by Leonard Slatkin (Eugene Kohn on Nov 21)
Plácido Domingo sings the role of Carlo (replaced by Antonio Barasorda on Nov 21); Kennedy Center Opera House; Nov 19, 21, 22

TV AND RADIO

WORLD SERVICE
BBC World Service radio for Europe can be received in western Europe on medium wave 648 kHz (463m)

EUROPEAN CABLE AND SATELLITE BUSINESS TV
Monday to Friday, Central European Time

NBC Europe
10.00: *European Money Wheel*
Nonstop live coverage until 15.00 of European business and the financial markets.
17.30: *Financial Times Business Tonight*

CNBC
08.30: *Squawk Box*
10.00: *European Money Wheel*
18.00: *Financial Times Business Tonight*

COMMENT & ANALYSIS

Russia's most important industry is up for sale. So desperate is the country for investment capital that it has taken a step many thought might never come to open up its oil and gas sector to foreign investment. Exactly how open, however, is another matter.

On the face of it, the gates are wide open with a welcome mat in front. In a move that took westerners by surprise, Boris Yeltsin, the Russian president, this month signed a decree allowing foreigners to buy 100 per cent of Russian oil companies.

Foreigners have wasted little time. Within days it emerged that Royal Dutch/Shell had teamed up with Gazprom, Russia's giant gas monopoly, to bid for Rosneft, the last big state oil group to be privatised. Yesterday, British Petroleum signed a deal to buy 10 per cent of Sibirneft, giving it a stake in a vast gas field near the Chinese border. These are among the largest foreign direct investments Russian has received.

Brunswick, a Moscow-based brokerage, estimates that the government could raise \$20bn (£13bn) through the sale of state assets by the end of 1998, with large chunks coming from foreign investors - especially in oil.

But two questions remain: will foreign investors be allowed to run their businesses free from state meddling? And which investments are likely to prove most successful?

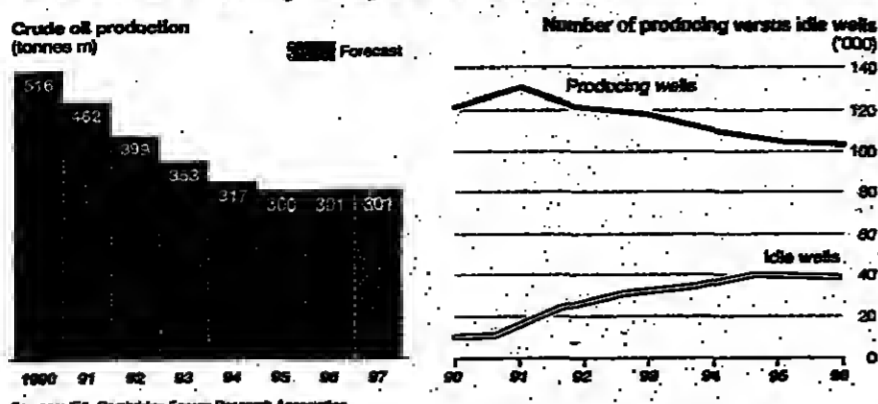
In the eyes of western oil companies, the benefits of foreign investment are self-evident. Russian oil output has plummeted since the collapse of the Soviet Union from 569m tonnes in 1988 to 305m tonnes last year. The industry badly needs new investment into its decaying infrastructure, but few Russian companies have the clout to raise large sums themselves.

Although Russian companies have begun to tap international capital markets, they still face severe constraints, particularly after the financial fallout from the south-east Asian crisis. Gazprom this month received a \$3bn loan from a syndicate of international banks, but has had to postpone an additional \$1bn convertible bond. So foreign direct investment is likely to remain vital for

The beginning of Russia's oil rush

Oilmen are heading for the final frontier, say John Thornhill and Robert Corzine

Russia's oil industry: desperate for dollars



Source: IEA, Cambridge Energy Research Association

many years. Russia hardly provides an easy investment climate. But it has huge attractions for western oil companies, namely several large undeveloped fields of a size rarely found in spite of the billions of dollars spent annually on worldwide exploration.

In a report prepared for the Russian parliament, western oil companies said the foreign development of just six identified oil and gas fields could produce enormous economic benefits. These projects would earn about \$450m over their operating lives, creating more than 500,000 jobs.

But before they are prepared to make large-scale investments in production, western companies say they need stronger legal and tax guarantees. Their preferred method of operation would be to sign internationally recognisable production-sharing agreements (PSAs), which leave ownership of natural resources with the state but allow foreign developers a defined share of future revenues.

Although the Russian government has tried to enact such agreements, the Communist-dominated parliament has resisted. So far, it has only approved a shortlist of production-sharing projects and has failed to adopt

the legislation necessary to make them work. The appointment of a reformer, Boris Nemtsov, as first deputy prime minister and energy minister in the spring, has given renewed impetus to the legislative process as he has tried to entice foreign companies into Russia.

"I think it is only a question of time before we see a legislative framework in Russia that works well for all kinds of investors," says the head of the Moscow office of a European oil company. "Production-sharing agreements are now a reality in Russia even though progress still needs to be made on the enabling legislation."

But is the news really that good? Some industry experts think not. Such views, they claim, are naive. They reckon western companies are deceiving themselves if they expect business in Russia to be driven by international legal norms.

Yevgeny Khartinkov, general director of the Moscow-based International Centre for Petroleum Business Studies, wonders why western companies should place so much emphasis on production-sharing agreements (which may never fully materialise) and make so little effort to understand Russia's business culture.

"This has always been a country of strong executive power and weak legislation," says Mr Khartinkov. He argues it would be far better for western companies to ally themselves with strong Russian companies - as Shell and BP have just done and as Arco, the US oil major, has with Russia's biggest oil group Lukoil - and cultivate support in local and central government.

"First you make friends, then you make deals, then you make money," says Mr Khartinkov. "That is the way it works in Russia."

Some Russian oilmen (and a few western ones) say foreign companies must also learn to show more respect for the local industry, which in its 100-year history has produced more than 13bn tonnes of oil. "The western multinationals, which pride themselves on their ability to work around the world, have shown a remarkable insensitivity," says one oil consultant.

Foreign oil executives tend to respond that dozens of old-fashioned joint ventures are struggling to make a financial return, highlighting the dangers of operating without a strong legal framework. Besides, they say, it is

far from clear how many Russian companies want to work with foreign operators. Even ignoring nationalistic concerns, many Russians view the international energy giants as future competitors and are not keen to give them access to the country's vast reserves.

"In the field of oil production, Russian oilmen are some of the best in the world," says one oil industry boss. "Our problem is in exploiting underground reserves. But when it comes to working on land our experience is probably greater than anywhere else. Why do we need foreign partners?"

Enan Baird, chairman and chief executive of Schlumberger, the Franco-American oil services group, believes Russian reluctance to team up with western equity partners offers an opportunity to companies like his. Russian companies will have to import more technology, he says. "They will not be able to last much longer without a massive increase in efficiency."

Schlumberger intends to make a big commitment to Russia, which Mr Baird says could eventually rival the US as its largest market. "After years of frustration... there are signs that Russia is beginning to see the value of buying high technology oilfield services," he says.

All this suggests there is plenty of opportunity in Russia for foreign investors. But pursuing upstream oil projects will continue to be a fraught affair. Direct investments are only ever likely to flourish in offshore areas such as Sakhalin in Russia's far east, where there is a supportive local administration, high technical demands and massive investment needs. Elsewhere, foreign investors may come to the conclusion - as Shell and BP appear to have done - that it makes more sense to invest alongside a local partner.

One thing is clear: Russian oil companies will not be able to rest on their laurels. Reformers in government believe local companies must be compelled to "use or lose" the assets so haphazardly distributed during earlier privatisations. For foreign oil companies with deep pockets - and even deeper reserves of patience and ingenuity - this could be the time to strike.

Europe's dangerous monetary experiment



Richard Lambert

The US does not think much of the planned single currency

The US is waking up to the reality of European economic and monetary union - and does not much like what it sees. What in Europe looks like a bold political adventure appears in the US as a dangerous economic experiment. Pestilence and famine are on the agenda.

Martin Feldstein, professor of economics at Harvard, goes further than most. In "Euros and International Conflict", a dark essay in the latest issue of Foreign Affairs, he reminds his readers that, although 50 years of European peace is quite an achievement, there were also more than 50 years of peace between the Congress of Vienna and the Franco-Prussian war.

And in case that is not enough to frighten the children, he further argues that a formal political union would be no guarantee against an intra-European war. "The American experience with the secession of the south may contain some lessons about the danger of a treaty or constitution that has no exits," he observes.

Others are almost as gloomy. Henry Kaufman, the Wall Street economist, was arguing the other day that localised recessions would be all but inevitable under the system. Financial markets would question whether the country involved would stay in the system, or seek to re-establish its own currency. He thinks that the early years of the experiment will be especially volatile and dangerous.

Officials in Washington have come to recognise that monetary union is near enough a political certainty, so their public statements are polite even welcoming. Their private views are sometimes another matter.

Why does the prospect look so bleak from the western side of the Atlantic? There are two obvious answers.

The first is that New York is beyond the range of the stun gun of Helmut Kohl, the German chancellor. The confidence of French officials does not reach Wall Street, nor does the grim determination of Romano Prodi, the Italian prime minister.

And, from a distance, the motives driving Europe's leaders forward seem both obscure and overly complicated. Everyone seems up to crafty dodges, as in France's recent attempt to have its man appointed to the top of the new European Central Bank. Until recently, they have had very different views about the proper role of monetary policy.

The second explanation is that the US has its own experience of what makes a single currency work - and none of the most relevant features apply in Europe.

Millions of workers cross state lines in the US each year. If the defence industry takes a hit in southern California, displaced workers hop in their truck to Colorado, or wherever else work is to be found.

The US can transfer federal resources to cities and regions affected by economic downturns through a well-established system of automatic stabilisers and discretionary programmes. It has a tried-and-tested central bank, with a credible record and a political counterweight in Washington. Alan Greenspan, the chairman of the Federal Reserve, has considerable independence, but he cannot ignore Congress.

The country is bound together by a common language, shared values and a sense of national identity - more or less. And Europe?

American observers tend to overstate its problems. They see only an over-regulated business sector, inflexible labour markets, unaffordable social programmes, and high unemployment. They tend to write the French off as a bunch of hopeless socialists, and they often don't recognise the real changes that are taking place in Germany at plant and company level. They can't believe that Italy and Spain will even be allowed to join the party, or that there is much real popular support for a single currency.

From this stems their view that the European system will be unable to cope with a localised economic shock. Workers will be unwilling or unable to travel around Europe for opportunities. On the evidence, they don't move from Yorkshire to London, let alone to Frankfurt. With no room for monetary manoeuvre and their fiscal freedom curtailed, tensions between countries will rise - and the European Union will be held responsible.

From that point, it's not too large a leap towards the growth of economic and political nationalism - and to that ultimate of all ironies: a system that was designed to unite Europe ends up by blowing it apart. An idea intended to bring down the last remaining barriers to trade has precisely the opposite effect.

Good Europeans do not have to swallow all this gloom.

They can point to signs of economic recovery around the continent, and the hope that a period of sustained growth would make the problems look a lot more manageable. They can argue that the pressures of the union will force through needed labour reforms there will simply be no alternative.

But it is quite a hard case to make. And it is difficult to shake off this sneaking feeling: if it were not for the fact that the Europeans who are opposed to Euro are mostly so frightened, you would begin to harbour a few doubts yourself.

LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL

We are keen to encourage letters from readers around the world. Letters may be filed in 344 471 373 5558 (please set fax to 'line 2'). E-mail: letters@ft.com. Published letters are the property of the FT and may be used in any form. Letters may be edited for clarity and brevity. We are not responsible for the return of unsolicited material.

'Cherry picking' strategy also a factor behind fast-track failure

From Mr Simon J. Everett, Sir, The failure to pass fast-track legislation was not solely due to flawed political strategy, as suggested by your editorial "Bill Clinton sidetracked" (November 11). For the last 15 years US administration officials have argued that the only way to save multilateral trading arrangements was to sign regional and sectoral arrangements with selected trading partners. Evidently

this "cherry-picking" strategy has failed to cobble together a large enough coalition to support further trade liberalisation. Of course, this strategy cut no ice with those industries and interests that are not well connected enough to be deemed "strategic", whatever that means.

The one consolation of this debacle is that US trade policymakers have three years before the installation

of a new administration to refine a feasible multilateral trade strategy, which can be credibly sold as being in the interests of all Americans.

Simon J. Everett, moderator, Brookings-George Mason Roundtable on Trade and Investment Policy, 1776 Massachusetts Avenue, NW, Washington DC 20036-2188, US

People's right to donate anonymously

From Sir Geoffrey Pattie, Sir, In the future over the Ecclestone donation to the Labour party, one point is in danger of being overlooked, and that is the right that UK citizens should have to donate money or, indeed, anything else, anonymously for their own good reasons. How, then, can the appetite for total transparency be reconciled with the right to

make anonymous donations even to political parties? One way would be to establish a commission, reporting to Sir Patrick Neill, chairman of the Commons standards committee, which would receive notification of donations to political parties over a certain amount and could then be put on notice to look out for linkage to future government decisions. The

information would, however, have to remain confidential in the government system and not be shared or made available among political parties in order for the anonymity principle to be respected.

Geoffrey Pattie, The Manor House, Duncton, Petworth, West Sussex GU26 6JY, UK

First off the blocks

From Mr Peter Brown, Sir, The systematic mass production of manufactured goods predates the Springfield Armory's production of wooden gunstocks in 1819, discussed in Peter Martin's article "Thinking along the same lines" (November 13). In 1808, plant for the manufacture of wooden pulley blocks for the Royal Navy started operation at Portsmouth. Output was 130,000 blocks a year, produced by 10 unskilled men doing the work of 130 skilled men. The Admiralty saved £17,000 a year for a capital outlay of £54,000. The 44 machine tools installed were designed by Marc Brunel and made by Henry Maudslay.

Peter Brown, "Rivendell", The Holway, Winterton-on-Sea, Great Yarmouth, UK

Facing nuclear realities

From Mr Nils-Axel Mörtner, Sir, It is always a pleasure to read your well written and careful analyses of various topics. This was the case with your nuclear power survey (November 14). As a scientist specialising both on nuclear waste problems and on climatic changes, I would like to add a few points. Nuclear waste problems are by no means solved. The more waste we produce, the larger will be our problems of handling it in the near future. Instead of a "final solution", we need some sort of temporary solution where control and freedom of action are guaranteed.

In your survey, you mentioned the Three Mile Island and Chernobyl accidents. There are, unfortunately, many reasons to expect that we will experience several new accidents in the near future. As pointed out by Kjell-Olof Felt, our former energy minister, it will not

be popular to talk about nuclear power in such a situation. It seems to me that our decision-makers are not prepared for this - probably unavoidable - situation.

Finally, much is said about the greenhouse effect and global warming. But how realistic is its concept? Much is written in support of this idea, but it is really firmly anchored on scientific knowledge? I suggest not. I believe the global warming "bubble" is likely to collapse in the near future. Whatever opinion one may have on this question, there is an urgent need for our decision-makers to prepare for when the currently popular global warming concept is no longer tenable.

Nils-Axel Mörtner, head of paleogeophysics and geodynamics, Stockholm University, S-10691 Stockholm, Sweden

Gold best investment over the long term

From Mr Robert Pringle, Sir, It is wrong for Lex to say ("Gold", November 15-16) the Dutch, the Australians and the Swiss central banks see gold as "a pretty useless investment".

None of these central banks takes that view. The Dutch sold some of their gold for Euro-related reasons and the Australians because they think, rather naively, that reserves in the ground are adequate substitutes for some of their above-ground stocks.

The Swiss, who have not sold any ounce of gold, have recently re-affirmed the key role of gold in their reserves. Gold, said the recent report of an official working party, with representatives from the ministry of finance and Swiss National Bank, is seen as "the only asset that keeps its (real) value over the centuries". The referendum needed to allow some limited sales of gold to finance the proposed Solidarity Fund will probably not take place until 2000 or later, and may well not pass.

As regards the calculation that the top 12 central banks lose \$150m a year in interest foregone by holding gold, this takes no account of the possible capital loss on alternative investments (for example, US Treasury bonds). As Lex should know, government bonds have been poor investments for many investors this century.

A calculation of average total annual returns for a dollar investor from buying in any given year and selling in any (randomly chosen) subsequent year between 1896 and 1996 demonstrates that gold has outperformed both long- and short-term US government bonds.

Robert Pringle, head, Centre for Public Policy Studies, World Gold Council, Kings House, 10 Haymarket, London SW1Y 4BP, UK

Can you spot ten of our software clients?



The sponsors of the West McLaren Mercedes Formula 1 team have a lot in common.

A passion for speed and performance. A strong will to succeed. And a software solution which integrates these things into business life. The R/3® software from SAP®.

A whole range of companies, both large and small, profit from the R/3

enterprise solution software. Mercedes-Benz for one. The somewhat smaller car manufacturer McLaren for another. Recemeta, Mobil, and Goodyear use it as successfully in their industry as Bosch, Camozzi or Lottre do in theirs.

And companies such as Sun and Computer Associates, who are also among our partners, are already convinced of its benefits.

After a brief implementation phase, the R/3 applications automate virtually all processes in production, sales, accounting, personnel management and other areas of your company. The result: greater flexibility, efficiency and speed in your company.

Fast software solutions for a genuine competitive edge can be found on <http://www.sap.com>.

Or call your local SAP office: Austria (0) 224 22 2242, Belgium (0) 77 80 51 51, Czech Republic (0) 451 97 01, Denmark (0) 26 39 00, Finland (0) 61 33 30 30, France (0) 55 30 20 00, Germany (0) 53 46 26, Greece (0) 210 22 02 02, Hungary (0) 45 22 02 02, Italy (0) 61 33 30 30, Japan (0) 61 33 30 30, Korea (0) 210 22 02 02, Luxembourg (0) 210 22 02 02, Malaysia (0) 210 22 02 02, Mexico (0) 210 22 02 02, Netherlands (0) 210 22 02 02, New Zealand (0) 210 22 02 02, Norway (0) 210 22 02 02, Poland (0) 210 22 02 02, Portugal (0) 210 22 02 02, Russia (0) 210 22 02 02, Spain (0) 210 22 02 02, Sweden (0) 210 22 02 02, Switzerland (0) 210 22 02 02, Taiwan (0) 210 22 02 02, Thailand (0) 210 22 02 02, Turkey (0) 210 22 02 02, UK (0) 210 22 02 02, USA (0) 210 22 02 02.



A Better Return On Information.

COMMENT & ANALYSIS

FINANCIAL TIMES

Number One Southwark Bridge, London SE1 9HL
Tel: +44 171-873 3000 Telex: 922186 Fax: +44 171-407 5700

Wednesday November 19 1997

Off with their heads!

The court of Boris Yeltsin bears ever more resemblance to the Tsarist courts of old. Favourites clamour and bicker for the ear of the sovereign. Reputations laboriously built over years can be unmade in a night. The most unlikely alliances are stitched together out of venal self-interest, and come unstuck with equal unpredictability. But the monarch rules supreme.

Thus it would appear to be today. A bare two weeks ago, Boris Yeltsin, car salesman turned rouble billionaire, was unceremoniously sacked from his post of deputy secretary of the president's Security Council. It was an unlikely post for a businessman, but one he owed to his part in the alliance of bankers and reformers which ensured President Yeltsin's re-election last year. But he fell out with Anatoly Chubais, the mastermind of the election campaign, and paid the price.

Now it is Mr Chubais' turn, and Mr Yeltsin's chance for revenge. The deputy premier has seen three of his closest allies sacked from the Kremlin and the Russian government in as many days, and his own position become extremely precarious. All are accused of accepting lucrative advances from a book publisher, owned by Oleximbank, the Russian financial group which defeated Mr Yeltsin in recent privatisation battles. Mr Yeltsin has decided their conduct was "impermissible".

Mr Yeltsin's formal role in the Kremlin was not particularly important. But Mr Chubais matters. He is a very able administrator and a committed economic reformer, who has been the most effective guarantor of the reform process in recent years. When others hesitated - including the president - he pressed ahead. Without him, the privatisation process would not have happened. Nor would Mr Yeltsin have defeated the Communists in the election. His single-minded determination was critical to both achievements.

Whatever the justice of the charges against him, Mr Chubais has argued for the creation of an open, law-abiding system in Russia. In his position, he must be seen to be like Caesar's wife, above suspicion. The corrupt and inefficient Soviet economy has largely been dismantled, in no small way thanks to him, but it has been replaced by a corrupt and lop-sided form of bandit capitalism.

It is essential for the future prosperity of Russia, and the stability of its democracy and market economy, that its government becomes more transparent. Mr Chubais has not succeeded in accomplishing that. Nor has he succeeded in rising above the bitter infighting of Mr Yeltsin's court. His predicament is very much a symptom of the system. Mr Yeltsin must think hard whether sacrificing him would improve it.

Euro-shuffle

The proposed merger between the German insurance giant Allianz and French insurer AGF is being billed as a preparatory move for the euro and the single market. No doubt other moves in European financial services will be justified on similar grounds. Yet past experience suggests room for scepticism about such mega-deals. Could it be that the dinosaurs of the industry are huddling together for comfort as a tide of liberalisation and new technology undermines traditional ways of doing business?

There are, of course, circumstances in which cross-border mergers will make sense. In financial services the euro will transform capital markets. Asset allocation will be done on a pan-Euro basis and it will be possible to match pension liabilities with assets from anywhere within the monetary union without incurring exchange risk. There will thus be synergies in fund management.

Euro-induced price transparency will also add to pressures for consolidation in banking and insurance. Yet cross-border deals are not necessarily the best way to restructure. Surplus capacity in banking, for example, offers cost-cutting opportunities chiefly on a domestic basis since foreign acquirers have few overlapping branches. In insurance, meantime, most retail business is purely domestic.

Standardised products such as motor insurance may lend themselves to genuine cross-border economies of scope and scale. Demand for life insurance, by contrast, is driven by national tax breaks, while distribution is subject to varying regulatory arrangements.

There is room for efficient suppliers to compete out of existence some very costly, low-return European insurance and pensions products. But this is more likely to come through competition in the market place than via bids and deals.

A more active market in corporate control now provides great opportunities for managers to feather their nests. Size provides a defence against hostile takeovers, yet size-driven deals can readily be justified with vacuous babble: critical euro-mass. A cross-border merger may offer an easy escape from competition policy problems at home - only to become a headache when it comes to melding disparate national and business cultures.

Note, too, that currently fashionable bank-insurance mergers release fewer cost cuts than bank-bank mergers, while leaving senior managers in place. Cross-border deals should be more rigorously justified. Sadly, shareholder activism in Europe is too frail a growth to restrain ego-tripping management when a poor case is advanced.

Flight support

Why should the British government help finance a new civilian plane when it would not fund the launch of a car or bicycle? That is the question Tony Blair must consider when he hears a plea from British Aerospace for £120m in public support for participation in two new European Airbus aircraft. The prime minister should reject the request.

The main argument in favour of aid is that aerospace projects are so large that only government help can make them viable. Since other nations support their companies, either directly or through defence spending, the UK must do the same or risk losing jobs and damaging its industry.

The argument is not specious. Even Boeing, the world's biggest aircraft company, receives US government support for defence-related projects. While makers claim to keep civil and defence programmes apart, many developments span both fields.

Cutting aid would allow scarce public resources to be diverted to other needs. But it is politically difficult to scrap support for civil aerospace unilaterally while other countries dole out public money. And there is an argument that without such support, there will be no counterweight to the giant US aerospace companies.

To contain this subsidy race,

however, the government should work for multilateral agreements such as the 1992 accord between the US and the EU limiting launch aid to one-third of the total cost.

Meanwhile, ministers should keep support to an absolute minimum. BAE says it wants funds on commercial terms, on which taxpayers would make a profit. But if the company can afford to borrow from the government on commercial terms, it can do the same from a bank. BAE should be rejected because it is cash-rich and very profitable. It can pay its own way.

Ministers clearly faced a more difficult decision on the £200m launch aid for Rolls-Royce's new generation of Trent aero-engines, agreed last week. Rolls is smaller and less profitable than BAE, and, on its own admission, would have struggled to finance the engines without some public support, albeit on "commercial terms".

BAE claims that if the government fails to contribute money, it will be hard for the UK to play a full part in future Airbus restructuring talks. The British will again seem semi-detached from a European project. Mr Blair should turn this argument on its head. He should say that by denying BAE unnecessary finance he is signalling the kind of commercially based restructuring he would like to achieve.

Clinton in the middle



From left to right: Yasser Arafat, Benjamin Netanyahu, Bill Clinton, King Fahd, Yasser Arafat and Saddam Hussein

The shifting sands

David Gardner looks behind this week's events at the wider changes affecting Middle-Eastern politics

What links popular Arab support for Saddam Hussein's belligerent defiance of the United Nations with this week's massacre of foreign tourists in an Egyptian temple? For an answer, step back and consider the frustration from Cairo to Tehran at the slow progress of the Middle Eastern peace process and widespread disenchantment at US policy in the region.

Six years ago, the US bestrode the Middle East like a colossus. Washington had just led a huge army of western and Arab allies to roll back Saddam Hussein's invasion of Kuwait. Victory enabled the world's lone superpower to begin separating the sheep from the goats in the troublesome region.

Washington started isolating "rogue states" such as Iraq and Iran from those it assembled alongside Israel in October 1991 to launch the "land-for-peace" process. Until recently this initiative looked the most successful attempt to resolve the century-old dispute between Arab and Jew over sharing the land of Palestine. So optimistic were some that, as the former Israeli leader Shimon Peres once put it, they envisioned a time when the region's only generals would be General Motors and General Electric.

Six years on, US policy towards the region is in danger of going badly awry. Mr Saddam remains in his Baghdad fastness, still pushing to break out of his UN-imposed isolation. The Islamist clerical regime in Tehran appears reinvigorated and is re-arming. Above all, the peace process has been driven into a ditch by Israel, Washington's closest regional ally, under the erratic leadership of Benjamin Netanyahu and his Likud-led coalition of extreme nationalists and religious fundamentalists.

These pressures have broken the post-Gulf war consensus. The US is at odds with its European allies (and commercial rivals) over how to "contain" Iraq and Iran. Washington's Arab allies are fearful of losing the initiative to Islamist radicals such as those

who carried out this week's massacre in Egypt.

Arab leaders are bowing to popular pressure to shun Mr Netanyahu's Israel, which is intent on keeping as much conquered Arab land as it can and on colonising Arab east Jerusalem. The impasse in the peace process - which started when Mr Netanyahu started building the Jewish colony of Har Homa in south-east Jerusalem - is slowly rehabilitating the "rogue" regimes. It is also fuelling a wave of anti-American sentiment across the region.

Syria, disappointed in its quest to get Israel to return the Golan Heights, is moving to end its 20-year feud with Iraq, Iran and Iraq, which fought each other to a standstill in the 1980s, are mending fences. Even vital US allies such as Saudi Arabia have reopened their lines to Tehran.

This week, the US-orchestrated Middle East economic summit in Qatar - the fourth since 1994 to include Israel and designed by Washington to underpin the peace process - was widely boycotted by Washington's Arab friends. But they are expected to turn out in force at a 50-nation Islamic summit next month in Tehran, which is neither Arab, nor friendly to Washington.

There is no shortage of conspiracy theories in the Middle East purporting to explain these developments. But what must be unquestionable is that the turn of events is not that intended by US policymakers. So why is the strategy misfiring in a way that appears to conflict with US national interests and set Washington at odds with its allies?

One answer is relative neglect. Bill Clinton, the US president, in his second term has sought to devote foreign policy to issues that stand higher in the pecking order of US priorities than does the Middle East - the relationship with China, Nato enlargement and a free hand from Congress to forge global trade deals. But the potential for mayhem in a region that contains more than half the world's proven oil reserves keeps on pressing the administration into service as a

firefighter.

Thus, in recent weeks the US has reconvened Israeli and Palestinian negotiators in another attempt to revive the moribund Oslo peace process. Madeleine Albright, the US secretary of state, last week met Mr Netanyahu and Yasser Arafat, the Palestinian leader, to explore the possibility of launching "final status" negotiations. These would resolve the future of east Jerusalem and Jewish settlements in the West Bank as well as the rights of 4m Palestinian refugees, and decide whether the Palestinians get a viable and independent state.

Another reason for Washington's policy failure is its confusing stance towards Iraq and Iran. On Iraq, Mr Saddam's expulsion this month of Americans in the UN weapons inspection team has handed Washington the opportunity to heal a split in the UN Security Council. France, Russia and China last month dissented from the US and the UK over a small addition to sanctions on Iraq for failing to come clean on its weapons programmes. The Iraqi despot took this as the cue for his almost yearly challenge to the UN's post-Gulf War sanctions regime.

The split arose largely because Washington's "dual containment" policy has muddled up UN-endorsed sanctions against Iraq with its own unilateral sanctions against Iran - and against allies that do not adhere to them. Last year, Congress passed the Iran Libya Sanctions Act (Ilisa), obliging the administration to penalise foreign companies investing in Iran's oil and gas industry.

Thus, while Washington is relying on France and Russia to provide a diplomatic solution to the Iraqi crisis, the administration is poised - "within weeks" according to senior US officials - to decide whether to impose sanctions on Total of France and Gazprom of Russia for a \$2bn investment in Iranian gasfields.

Worse still, Petronas of Malaysia is part of the Total consortium, while an Indonesian oil company has a stake in a Canadian-led investment in Iran also

under investigation. If the US opts to impose sanctions on two big Muslim countries like Malaysia and Indonesia, Arab leaders may be tempted to restore their boycott on companies doing business with Israel, as Syria and Iran are urging.

The third factor hampering US policy is linked with the inner workings of the US political system. US officials tacitly acknowledge that Ilisa is an unworkable law foisted on the administration by a pro-Israel Congress. But more than that, it is emblematic of the whole US policymaking process towards the Middle East, heavily influenced at critical stages by the pro-Israel lobby, arguably the most powerful interest group in the American political system.

Sanctions against companies investing in Iran are the brainchild of the American-Israeli Public Affairs Committee (Aipac), the spearhead of the pro-Israel lobby that has aides attached to most congressmen and senators. Former Aipac executives have this year taken over as chief fundraiser and co-chairman of the Democratic National Committee. Aipac, by the estimate of one Israeli lobbyist, "is the engine which pulls the entire US foreign aid package" through Congress, including the huge aid packages for Israel and Egypt.

In addition, Martin Indyk, the assistant secretary of state for Middle Eastern and Near Eastern affairs and former US ambassador to Israel, emerged from the Aipac-aligned Washington Institute for Near East Policy.

According to one of the State Department's dwindling band of Arab specialists this has tended to mean the US has "stayed close to Israel" even though "on the substance, we're actually closer to the Arabs - for land-for-peace, for a Palestinian state, and for keeping Jerusalem out of it".

The election of Mr Netanyahu has altered the equation. "The consensus here is that Bibi [Mr Netanyahu's nickname] is a bull in a china shop," says one influential Democrat. "Netanyahu has shown he's prepared to circum-

vent the administration and do his deals direct with the conservatives in Congress."

Whoever Mr Netanyahu addresses the Congress, he can count on more unconditional support than in the Knesset. The White House and State Department are locked in debate about whether to apply pressure on Mr Netanyahu over the peace process. But Israel's government and the Washington lobby are busy promoting a series of bills before Congress designed to impose sanctions on Russia for exporting missile technology to Iran.

This is becoming a matter of US domestic political rivalry. Al Gore, the US vice-president - long associated with the pro-Israel lobby and preparing a bid to succeed Mr Clinton - is seeking an agreement with Russia on sales to Iran. Congressional insiders say the Israeli lobby is bedeviling its bets with Mr Gore. Because 80-90 per cent of the "seed-money" - essential campaign funds for Democratic candidates to finance their bids for the presidential nomination - is provided by Jewish donors, it has a lock-hold on Middle East policy.

"In these circumstances, asking what the national interest is is irrelevant," says one well-placed Washington official. "Money is essential to Middle East policy-making, and our ability to make policy is being Balkanised."

The "domesticising" of Middle East policy is a sharp limit on Washington's ability to rein in Israel or to take strategic initiatives that could command regional and international consensus. While no other country or bloc has America's weight in the region, the US political system gives Washington very limited ability to manoeuvre.

In the corner of an office in the State Department there is a series of cardboard tombstones commemorating the death of failed policies in the Middle East. Among them is one that no doubt accurately reflects the administration's frustration with its inability to punch its real weight in the Middle East. It says: "Here should lie Ilisa - ill-conceived and making us ill."

OBSERVER

Henning party

Henning Schulte-Noelle isn't a boastful man, but neither does he believe in hiding his light under a bushel. The head of Allianz, Germany's biggest insurer, has an understated style that belies the company's global ambitions. He prefers to talk about being the world's best rather than the biggest.

But in Paris yesterday, the emphasis was very much on size as Schulte-Noelle gave details of what looks likely to prove one of his and his company's biggest coups yet - an agreed bid for French insurer AGF that will put Allianz at the top of the world league.

The move wasn't entirely unexpected - Allianz had indicated it might make a friendly move to save AGF from the hostile clutches of Italy's Assicurazioni Generali, which tabled a bid last month. AGF chairman Antoine Jeancourt Gellmann - who is of Italian descent and married to a German - plumped for an arranged marriage with Allianz rather than a shotgun marriage with Generali.

Even more friendly is the way the German company plans to let AGF keep its French identity, its French chairman and a large number of its French

shareholders - Allianz only wants around 51 per cent of AGF at a cost of DM5bn or so.

Schulte-Noelle, a tall, disciplined 55-year-old with a disarming scar from his days at Tübingen university - one of five places where he studied law and business - has brought a greater transparency to Allianz's operations and put more emphasis on earning higher returns for shareholders.

Whether those shareholders will be pleased with the AGF deal, and Allianz's role as a Teutonic white knight, remains to be seen. Schulte-Noelle now has to prove that corporate chivalry can be profitable.

Guest star

The august Metropolitan Club, just a stone's throw from the White House, hasn't exactly been in the forefront of efforts to promote ethnic or cultural diversity in America. But on Monday night its dark wood panels and old-fashioned chintzy decor formed the backdrop for a revealing moment in the growing love affair between the Washington elite and the energy-rich republics of the former Soviet Union.

It started with former US ambassador to Russia Bob Strauss presiding over a dinner for President Nursultan Nazarbayev of Kazakhstan - but

the guest of honour swiftly took charge of the proceedings.

After a spot of Kazakh music, he held his audience of lawyers, politicians and lobbyists spellbound with a half-hour lecture on geopolitics, with the assistance of a large map of his country's fabulous oil, gas and mineral resources. The thrust was that Kazakhstan could come second to Saudi Arabia in its oil wealth.

Nazarbayev revealed that his friendship with Strauss was sealed when he took the septuagenarian Democratic party fixer to a steam bath and thrashed him soundly with birch twigs - he claimed to have done the same to Jim Baker, then US secretary of state. Presidents of wealthy countries have to know when to wield the big stick.

Living doll

The softer, kinder 1990s have dictated a change of image for one of the world's great cultural icons: the Barbie doll.

The traditional Barbie, scaled up to real life, would be a wasp-waisted, busty giant. The new Barbie will be more girl-next-door than blonde bombshell, with natural/fish-looking hair and figure, less make up and a finer nose. US toy manufacturer Mattel denies that her more realistic dimensions are a cave-in to feminist critics

who say the doll has created an unattainable ideal for little girls.

Old-style Barbie will still be available while the new model is being phased in next year. So if enough little girls insist that Mummy and Daddy stomp up for the glamorous pink princess, Barbie's ample bosom could still be saved.

Helter Schelto

Amsterdam's strait-laced mayor Schelto Patijn, who has run the unruly Dutch capital for the past three years, is under siege from a group of anarchists, brandishing an official report saying his behaviour during the European Union summit in June was worse than theirs.

A police complaints commission said there was no legal basis for the arrest of up to 380 people on allegations of belonging to a criminal organisation - a ruse to keep them off the streets while Kofi, Chirac, Blair and Co cavilled away over drafts of the treaty which will bear the city's name. Some were detained for nothing more substantive than the nocturnal banging of pots and pans outside hotels in the hope of keeping summiteers from their five-star beds. Amsterdam's "autonomous" movement, chuffed with taking on the system at its own game, says it will seek legal redress.

100 years ago

A Note Of Caution

The newest member of the ecclesiastical group of Fire Offices is that of the Presbyterian Church in Ireland, whose first report runs to 15th March last. Worked at very small cost and with no claims as yet, there is an appearance of prosperity which induced the directors to declare a 5 per cent dividend on the capital. This is not good finance, and we drop a necessary note of warning at this early stage. Fire insurance is based on averages, but individual years have an awkward habit of varying greatly. No claims this year may mean a disaster next year, and the resources should be carefully husbanded until a proper reserve has been made.

50 years ago

New Iraq Pact

Preliminary announcement is made of a new financial agreement between the Government of Iraq and the British Government. The object is the regulation of the extent to which sterling placed at the disposal of Iraq in the earlier part of August is to be used to effect payments in territories outside the sterling area whose currencies under existing conditions are "scarce".

Japan may use public funds to help banks

By Gillian Triff in Tokyo

Japan's stock market surged for the second day in a row yesterday after politicians said they were considering using public funds to support the country's ailing banks.

The Nikkei 225 briefly rose through the 17,000 level before closing at 16,765.57 - 2.7 per cent up on the previous day's close and almost 11 per cent higher than at the start of the week.

The rise came after Taku Yamazaki, policy head of the ruling Liberal Democratic party, said the party was considering establishing a government agency to purchase shares in ailing banks.

The proposal, which would aim to strengthen the capital base of the banks, could be included in the next round of an economic package due to be announced in mid-December, politicians said. The comments heightened investors, who interpreted them as a further sign that the government was at

last taking steps to tackle the country's deep-seated financial problems.

While the markets rallied on Monday after the government moved to close the loss-making Hokkaido Tokai bank, analysts believe that a coherent policy will also involve aiding banks with the inherent strength to survive the bad loans crisis.

Optimism was also boosted by Japanese media reports that Ryutaro Hashimoto, prime minister, had said he was considering the concept.

"This is good news," said Jason James, of HSBC James Capel. "The reports show that the government is looking to do something more severe to solve its problems."

However, some officials at the finance ministry said they remained opposed to any use of additional public money - particularly given the country's large fiscal deficit.

And banking analysts warned that any such moves could still be blocked by

bureaucrats. Betsy Daniels of Morgan Stanley said: "The stock market is setting itself up for disappointment - it is unlikely that they will really use public funds."

Until now the Japanese government has been opposed to using public money to bail out the country's ailing banks and brokers. However, with the country's planned "big bang" deregulation looming, the financial system is coming under mounting pressure.

Earlier this week, Hokkaido Tokai bank, the 10th-largest commercial bank, announced it was ceasing business - the first such collapse of a large bank in Japan.

Meanwhile, the Economic Planning Agency yesterday revealed a package of economic reforms to boost the country's flagging economy.

Long-term focus for reforms, Page 4; Building industry shakeout, Page 15; Lower orders, hit, Page 16; World stocks, Page 32

Virtual pets help Bandai quadruple profits

By Michio Nakamoto in Tokyo

The fad for tamagotchi, the virtual pets, boosted profits at Bandai, their Japanese creator, nearly fourfold to a record ¥6.8bn (\$55m) for the first half of the year.

Bandai is pinning its hopes on new versions of tamagotchi and related products supporting similar levels of sales and profits to the second half.

The strong profits rise came on a 72 per cent increase in sales to ¥72.2bn. Net profits of ¥2.7bn were more than double last year's ¥1.3bn.

The tamagotchi fad, which triggered long queues at toy stores and a host of look-alike toys, appears to have abated somewhat in recent months. Sales are now between 1m and 2m a month compared with 3m a month at their peak.

When the toys were launched a year ago, parents and teachers complained that children were spending too much time and attention caring for their virtual pets.

They also voiced moral concerns, saying that children would have less regard for the value of life as the electronic chickens expired through neglect.

Bandai, which sold 10m tamagotchis in Japan alone in the first six months of the fiscal year, said it had made up for the lower monthly sales figures with related products, such as mascots that attach to cellular phones and light up to signal an incoming call.

The company is also preparing to launch a new version of the electronic chicken which, when mature, will lay its own eggs.

The new versions, designed to appeal to the maternal instincts of the young girls, who often spark crazes for toys in Japan, are scheduled to go on sale in the Christmas season.

Bandai has also benefited from another fad for Pocket Monster characters featured in a Nintendo video game.

In the full year, Bandai expects to see a similar level of tamagotchi unit sales, at 10m, but has conservatively forecast sales at ¥142bn compared with ¥98.7bn, recurring profits at ¥11bn, against ¥8.6bn, and net profits marginally up at ¥4.6bn from ¥4.3bn.

Earlier this year, Bandai and Sega, the video games maker, announced plans to merge to create one of the leading entertainment companies in Japan.

However, strong opposition within Bandai, spurred to part by the company's success with tamagotchi, scuppered the deal.

US export bank to bypass Kremlin with business loans

By Nancy Dunne in Washington

The US Export-Import Bank is to bypass the Russian government and provide export financing to businesses in Moscow and St Petersburg with city authorities providing the repayment guarantees.

The break with normal practice was devised by James Harmon, the bank's president, after a recent visit to Russia where he was favourably impressed by the mayors of Moscow and St Petersburg.

Mr Harmon said he also found the officials he met in Russia's banking community and the Duma to be "very intelligent, industrious, very responsible people".

"I was more positive about business than I ever expected to be. There are good relationships between the two (US and Russian) business communities," he said.

Mr Harmon said he was aware there would be "bumps and crises" but said he

believed there was no turning back from Russia's march towards a market economy.

A senior Eximbank official said the bank was awaiting the necessary financial data from the two cities before making a final decision about the municipal guarantee policy.

Mr Harmon, a former investment banker, was also ebullient about Eximbank's new lease of life through its four-year reauthorisation, which President Bill Clinton is preparing to sign.

Earlier this year Eximbank was in deep trouble. It had no chairman or vice chairman, and some congressional Republicans were keen to privatise it or severely cut its budget.

Mr Harmon, who took up his post in June, said he made personal visits to more than 100 congressmen to explain the role of Eximbank in markets where private finance is considered too risky.

The chairman has plans to increase project financing,

which ties repayment to revenue earned by its borrowers.

In July it provided financing for a \$15.6m sale of air traffic control equipment to Georgia. But, since the government has not been considered a good risk - even by the more lenient standards of export credit agencies - Eximbank provided guarantees to Citicorp, which will be repaid from the revenues that Georgia receives from international aircraft crossing its air space.

Eximbank has also signed an agreement to provide direct loans to Russia banks so they can extend loans to small and medium sized businesses outside Moscow.

In this case, the Russian government will be asked to share the risk.

Eximbank's exposure in Russia is now almost \$2bn, with about \$300m to \$500m at risk in the newly independent states.

See Lex

Editorial Comment, Page 13

Mubarak attempts to stamp out militants

Continued from Page 1

end of the year but was still operating in Cairo and the Red Sea.

Deutscher Reisebüro Verband, the German trade association for tour operators, said it had received numerous cancellations.

Japanese operators, also facing many cancellations, have

said they will arrange alternative holidays or pay refunds to those who cancel.

Francesco Frangialli, secretary-general of the World Tourism Organisation, condemned Monday's attack but said there was a danger that Egypt's neighbours could be affected by an irrational sentiment that all Arab countries were unsafe.

Speaking at the World Travel Market exhibition in London, Mr Frangialli said that other countries facing internal security problems, such as Sri Lanka, had been successful in limiting damage to their tourism industry.

"The best way is to tell the truth and show tour operators and journalists what the reality is," he said.

FT WEATHER GUIDE

Europe today

Scandinavia will be mostly dry and sunny, but it will be cloudy in the far north with some rain in places. The Low Countries, Germany, Austria and Switzerland will be cloudy, with some outbreaks of rain. France will be unsettled, with rain or showers in most parts.

Many places in Spain and Portugal will have rain or showers. The remainder of the Mediterranean will have sunshine and showers, with some of the showers possibly turning heavy and thundery. The bulk of eastern Europe will be dry but cold, with some snow flurries in places.

Five-day forecast

Most of northern and eastern Europe will stay dry and cold, but with a strong risk of snow flurries. Western and central Europe will continue to be unsettled, with showers or rain. The Mediterranean will remain unsettled with further showers, and some of the showers will be heavy and, at times, prolonged, with thunder.

TODAY'S TEMPERATURES

Maximum	Minimum	Forecast
Abu Dhabi	28	24
Accra	32	28
Algiers	22	18
Amsterdam	12	10
Athens	18	16
Atlanta	18	16
S. Aires	18	16
Bangkok	32	28
Batavia	32	28
Bombay	32	28
Buenos Aires	18	16
Calcutta	32	28
Cairo	28	24
Cebu	32	28
Colon	32	28
Hankow	18	16
Hong Kong	22	20
Kobe	18	16
London	12	10
Lyons	12	10
Manila	32	28
Medan	32	28
Moscow	12	10
Mumbai	32	28
Nairobi	22	20
Osaka	18	16
Paris	12	10
Perth	22	20
Port of Spain	32	28
Rangoon	32	28
San Francisco	18	16
Singapore	32	28
Sourabaya	32	28
Taipei	22	20
Tokyo	18	16
Toronto	12	10
Winnipeg	12	10
Zurich	12	10

No other airline flies to more cities around the world.

Lufthansa

THE LEX COLUMN

Cosy alliance

If AGF's shareholders were intent on getting the highest price, Allianz's FF330 a share bid would not be a knock-out. The German group is offering less than 7 per cent more than its rival, Assicurazioni Generali, and only wants to take 51 per cent at this stage. Nor does the offer look particularly generous on a multiple of just over 1.1 times net assets.

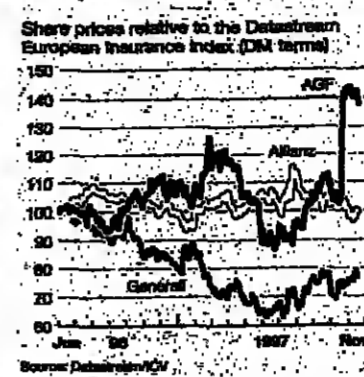
Would a tie-up with Allianz greatly improve AGF's earnings prospects? Not really. Allianz's tiny market share in France offers few overlaps to maximise savings. The potential buyer would be better placed to cut AGF's costs if it were taking control of the board. Without Allianz, AGF has plenty of potential to improve earnings. Its privatisation last year prompted an efficiency drive that has further to run and its imminent purchase of another French insurer, Athena, offers obvious synergies.

For Allianz, though, the gains are manifest. It beefs up its presence in France, Spain and Belgium, and gains clout in industrial insurance and asset management. But it is offering less than it might in return for a cosy arrangement with incumbent management. AGF shareholders should hope Generali returns to the fray.

Encouragingly for Russian corporate governance, both companies have won influence on management to match their investments. For its 10 per cent stake in Sidanco, BP has a seat on the board and the right to appoint the finance director and chief operating officer. And although Shell will not grace Gazprom's board, it will control 50 per cent of the company used for joint projects.

However, the real impact on the Russian economy will come not from foreign direct investment but from radical reform of the sham-bolic tax system. This has spawned a booming black market and problems of non-payment of taxes, wages and suppliers. Depressed tax

FTSE Eurotop 300 index:
 5211.1 (+3.6)

European insurers
 Share prices relative to the Dax index
 European Insurance Index (DAX terms)


Source: Datastream

date is Ottaway Newspapers, its local newspaper business, which is not strategic and could command a lofty multiple. And there is still the hope that GE's ambitions may extend well beyond TV news.

Vodafone

Was Vodafone's decision to cut its prices by 10-20 per cent really a reason for shareholders to gnash their teeth? Almost certainly not. True, lower prices would knock about £60m off the mobile phone group's annual profits if there was no impact on volumes. In fact, the boost to both subscriber numbers and usage should be more than enough to offset the lower prices. The shift is particularly significant because Vodafone, the market leader, has traditionally maintained a high price umbrella under which competitors have sheltered.

One only has to look to continental Europe to see how anemic the UK cellular market has become. British operators are adding customers at a rate equivalent to 2.6 per cent of the total population on an annualised basis, according to SBC Warburg. Other European countries range from a low 3.5 per cent in Spain to an astonishing 14.1 per cent in Finland. The UK, having once been a leader, is slipping down the league. Lower prices are only part of the answer. Better advertising to change the psychology that a mobile phone is a premium product, is also needed. More price cuts from Vodafone and rivals may be in the offing, but investors should not worry.

revenues have in turn pushed up budget deficits, public borrowing and finally interest rates for everyone. Until the state stops crowding out legitimate private sector enterprise, it will remain at the mercy of foreign capital.

Dow Jones

Are Dow Jones' long-suffering shareholders about to see their dreams come true? Not only has the US business information group admitted it is considering selling its loss-making Dow Jones Markets unit; it is also in discussions with General Electric over a linkage which would give Dow Jones news an outlet on CNBC, GE's successful financial television network.

Both moves would be good news for rebel shareholders who have been fighting the company's plan to invest \$65m in Dow Jones Markets, the former Telerate. Having overpaid for Telerate in the first place, Dow Jones' management failed to keep pace with rapid technological change in the screen-based news and data market, falling behind Reuters and Bloomberg. Given the investment and management effort now needed, it makes more sense for Dow Jones to sell.

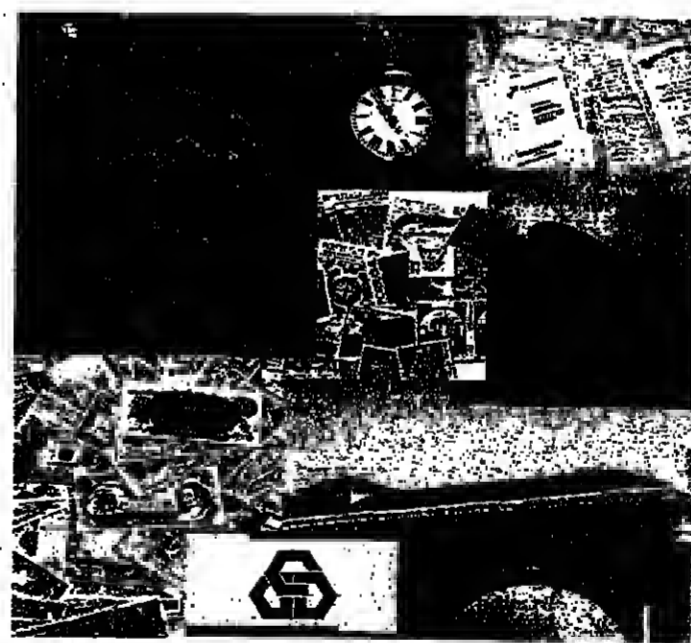
Reuters and Bloomberg are not the most likely buyers since they are already winning market share from Dow Jones and there could be monopoly difficulties. There is a much stronger logic for the sale to Thomson Financial Services, which would jump into the top three if they bought Dow Jones Markets.

After getting rid of the unit, Dow Jones should push ahead with further investments. An obvious candi-

Laura Ashley

So the rocket that was Ann Iversen, Laura Ashley's chief executive, has come crashing to earth - amid predictable gales of Schadenfreude. Two lessons can be drawn from this sorry episode. First, much is made of the desirability of retail vision. Less is heard about delivering it. Ms Iversen failed not so much because she was going in the wrong direction but because she tried to get there too fast. The substance of the vision ceases to matter when it cannot be implemented. The second lesson is that presentation counts: by talking a big game, Ms Iversen set herself up for a fall. A little more modesty early on and she would have been less vulnerable.

Additional Lex on Littlewoods, Page 19



Number One in Portuguese Banking

Caixa Geral de Depósitos, S.A., established in 1876, is Portugal's largest bank. As an universal bank, CGD operates an extensive 500 branch network offering a wide range of financial services in the domestic and international markets. CGD leads Portugal's most important financial group with major subsidiaries in commercial banking, insurance, leasing, factoring, fund management, real estate and venture capital.

CGD's expanding international activity is also backed by its subsidiaries: an offshore branch in Madeira, a full branch in Paris, a bank in Brazil, three banks in Spain, a bank in France and a network of correspondents in more than 100 countries. A solid institution and a diversified Group to offer you a complete financial service worldwide.

CAIXA GERAL DE DEPOSITOS
 Rely on Us

International Department (London) Tel: (021) 770 50 10; Fax: (021) 770 50 05 - Madeira Offshore Branch (Funchal) Tel: (021) 011 25 10 25; Fax: (021) 011 25 30 30 - BRASIL - Banco Paranaense (São Paulo) Tel: (011) 252 24 25; Fax: (011) 055 01 74 (Rio de Janeiro) Tel: (021) 522 43 55; Fax: (021) 522 74 75
 - FRANCE - Paris Branch Tel: (01) 40 80 54 00; Fax: (01) 40 70 00 00 - Banque Franco-Portugaise (01) 40 25 20 40; Fax: (01) 40 48 78 00 - SPAIN - Banco de Extremadura (Cáceres) Tel: (04) 027 24 00; Fax: (04) 027 24 21; 10 - Banco Luso Espanol (Madrid) Tel: (04) 411 02 25; Fax: (04) 411 02 26 - Banco Sinesa (Vigo) Tel: (04) 005 81 07 01; Fax: (04) 005 81 07 10

OCS GROUP
MANAGING THE ESSENTIALS

FINANCIAL TIMES COMPANIES & MARKETS

Wednesday November 19 1997

Week 47

VIAG. Creating enduring value.

Order our information package:
Fax +49-69-12 54-44 91
www.viag.com

VIAG

INSIDE

Seoul bourse 'yet to hit bottom'

Analysis believe the Seoul stock market has not yet hit bottom as the index approaches its lowest level since 1987. The fall in the currency, the won, is expected to encourage the exodus of investors worried about losses. Page 32

Guinea attacks bauxite partners. Fassiné Fofana, minister of natural resources and energy for Guinea, the west African country that is the world's second-largest bauxite producer, made a bitter attack on some of the foreign aluminium companies that have dominated the bauxite industry in his country. Page 22

Asian cruise company set up. Several Singaporean companies set up the country's first locally owned sea cruise group, ignoring concerns that south-east Asia's ailing and the regional economic downturn made it an inopportune time for the launch. Page 17

Dresdner RCM rules out bid for LGT. Dresdner RCM Global Investors, the asset management company owned by Dresdner Bank, ruled out a bid for the whole of LGT Asset Management, the company put up for sale by Prince Philipp of Liechtenstein this week. Page 16

Renong sale spells disaster. The purchase of a large stake in Renong, Malaysia's top infrastructure company, by UEM, its subsidiary, is a sign of deep financial disaster in the corporation that carries the government's modernising vision upon its shoulders. Page 16

Companies in this issue

AGF	15	LGT Asset Management	16
AME	15	Laura Ashley	16
AT&T	18	Lifesciences	19
Abbey National	20	Lifesciences	19
Accuride	18	MTNL	17
Adobe Systems	18	Marubeni	17
Aer Rianta	2	Mothers	15
Airbus	2	Metro Holdings	17
Airbus	22	Microsoft	10, 17
Alcoa	22	Mitsubishi	17
Alenia Aerospazio	15	Molten Metal	17
Allianz	15	NFC	17
Antena 3	3	Nedlloyd	17
Aoki	15	Nippon Life	18
Avon Products	16	Nishimatsu	18
Asia-JAP	18	Noranda	22, 16
BAL	22	Norsk Hydro	5, 22
BBL	17	Obayashi	17
BOC	17	Ontario Hydro	7
BT	17	P&O	19
Bandal	14	PQ Africa	17
BankBoston	18	Rechnung	22
Barclays Bank	18	Rechnung	22
Barlow	17	Parsons Q Data	18
Bertelsmann	16	Phelps Dodge	18
Boeing	7	PolyGram	18
British Airways	3	Pries	3
British Gas	18	Publicis	18
British Petroleum	22	Quest Petroleum	22
Campbell Soup	16	Renong	4, 16
Canal Plus	3	Reynolds Metals	22
Canary Wharf	20	Sabena	5
Cargill	22	Seppi	18
Citicorp	17	Schneider-Thomson	15
Coca-Cola	17	Schneider-Thomson	15
Credit Lyonnais	18	Schweitzer-Melting	22
Danabas	17	Seas	19
Doughty Hanson	17	Sembawang	19
Dresdner Bank	16	Shimizu	16
Düsseldorf airport	5	Siemens	16
Envi	18	Singapore Airlines	16
Enimbank	14	Société Générale	16
Energis	16	Sofres	19
Euroseas	18	Sogefable	3
Exim Bank	20	Sterna Line	3
Fastway Electronic	17	Sumitomo	17
Finmeccanica	15	Sun Cruises	17
First Bangkok City	17	Sun Microsystems	17
First Chicago	20	TBI	8
First Union	18	TGS	18
Ford	18	Telcel	18
Fresenius	18	Taylor Nelson AGB	18
Fujitsu	15	Telefonica	18
GEC-Marconi	15	Thomson CSF	15
GM	18	Time Warner	16
Generall	15	Tobishima	16
Goldman Sachs	18	Tokai Marine & Fire	16
Hazama	18	True North	18
Heidelberg Druck	18	Trustor	1
Hochtitel	2	UEM	18
Hydro Aluminium	22	UPR	16
ING	17	Via Digital	19
J.P. Morgan	18	Vodafone	19
Johnson Matthey	22, 15	Volkswagen	2, 18
KBS	14	Volvo	18
KNP Laykam	18	WMC	22
Kajima	18	Walt Disney	18
Kohlberg Kravis Ribt	18	Warner Bros	8

Market Statistics <http://www.ft.com>

Annual reports service	25,27	FTSE Actuaries share indices	28
Benchmark Govt bonds	20	Foreign exchange	21
Bond futures and options	20	Gold prices	21
Bond prices and yields	20	London share service	25,27
Commodities prices	22	Managed funds service	23-25
Dividends announced, UK	19	Money markets	21
EMS currency rates	21	New list bond issues	20
European indices	20	Options	20, 21
FTSE-100 World Index	20	Recent issues, UK	21
FTSE-100 World Index	20	Short-term interest rates	21
FTSE-100 World Index	20	US interest rates	20
Emerging Market bonds	20	World stock markets	20

CROSSWORD, Page 22

Chief price changes yesterday

FRANKFURT (DEM)		PARIS (FF)	
DAX	197.5 + 3.5	Accor	1030 + 24
CEA Prt	290 + 14	Danone	944 + 18
Parcels	2880 + 120	Sanofi	585 + 28
Parcels	411 - 9	Schweiger	588 - 10
VEN	580 - 20	St Agat Dr	639 - 10
Volkswagen	902 - 19	Tecumseh	616 - 22
NEW YORK (US)		TOKYO (YEN)	
Dow Jones	2774 + 24	Dow Jones	370 + 25
Frederick Midl	23 + 23	IBM	224 + 19
J&J Ind	124 + 19	IBM	224 + 19
Parcels	411 - 9	IBM	224 + 19
VEN	580 - 20	IBM	224 + 19
Volkswagen	902 - 19	IBM	224 + 19
LONDON (POUNDS)		HONG KONG (DOLLARS)	
CEA Prt	195 + 25	CEA Prt	20.4 + 1.15
Parcels	410 + 125	CEA Prt	20.4 + 1.15
Parcels	2236 + 379	CEA Prt	20.4 + 1.15
Parcels	410 - 43	CEA Prt	20.4 + 1.15
Parcels	1724 - 90	CEA Prt	20.4 + 1.15
Parcels	8574 - 181	CEA Prt	20.4 + 1.15
NEW YORK (US)		HONG KONG (DOLLARS)	
Dow Jones	2774 + 24	CEA Prt	20.4 + 1.15
Frederick Midl	23 + 23	CEA Prt	20.4 + 1.15
J&J Ind	124 + 19	CEA Prt	20.4 + 1.15
Parcels	411 - 9	CEA Prt	20.4 + 1.15
VEN	580 - 20	CEA Prt	20.4 + 1.15
Volkswagen	902 - 19	CEA Prt	20.4 + 1.15

UK aerospace group in talks with Finmeccanica over strategic alliance

Bae seeks an Italian connection

By Paul Betts in Milan

British Aerospace, the UK aerospace group, is in talks with Finmeccanica over a strategic alliance with Alenia Aerospazio, the Italian state holding company's civil and military aircraft division. If successful, the talks could lead to a broad tie-up between the two countries' aerospace industries as part of the push towards consolidation in European aerospace and defence to compete with big US rivals. Finmeccanica has already reached a preliminary agree-

ment with GEC-Marconi of the UK to pool their defence electronics and avionics activities into three joint ventures. Talks are also continuing between Finmeccanica's Agusta helicopter subsidiary and Westland of the UK to intensify their existing partnership. BAE and Alenia Aerospazio are understood to have signed a memorandum of understanding this year to examine the possibility of jointing forces. The two companies have exchanged extensive information and are expected to look at whether there is scope for a corporate alliance. However, officials close to the discussions say Finmeccanica's talks with BAE are far more complicated than the proposed alliance between the Italian company and GEC-Marconi.

BAE is much larger than Alenia Aerospazio, making it difficult to forge a 50-50 joint venture. More important, the Italian company is not a partner in the European Airbus civil aircraft consortium in which BAE has a 20 per cent stake. The Italian company, which has traditionally collaborated with the big US civil aircraft makers as a subcontractor, has said it now wants to join the Airbus partnership. UK efforts to forge strategic links with the Italian aerospace and defence industry have intensified following the collapse of the attempt to negotiate a broad European defence partnership with Thomson CSF of France. BAE's Italian campaign also appears to reflect its wider ambitions to put together a single European aerospace and defence company to compete against the increasingly concentrated US aerospace and defence industry following the merger between Boeing and McDonnell Douglas.

Electronics industry warned of palladium shortage

By Kenneth Gooding in London

Warning was given yesterday of a severe shortage of palladium, a metal essential for some components of portable electronic equipment such as mobile telephones and laptop computers, as well as for catalytic converters that remove pollutants from car exhausts. "Palladium use continues to grow strongly but production lags well behind. Soon after 2000 we could be in a very difficult situation unless industrial users take heed now," said Mike Steel, research director at Johnson Matthey, the world's biggest platinum and palladium marketing group.

He said consumers had been relying on Russia's palladium stocks to fill a substantial gap between demand and supply. JM believes these stocks will run out soon after the end of the century. Mr Steel said there had been a preview of potential trouble earlier this year when Russia, which produces 70 per cent of the world's palladium, stopped exporting the metal for six months. This helped to drive the price to its highest level for 18 years - \$245 an ounce - in August. Although it has fallen back since Russian exports restarted, the price remains roughly double its level at this time last year. The substantial price rise and worries about supplies have already forced the electronics industry to intensify its efforts to replace palladium with base metals, particularly nickel.

Although base metals would benefit most from growth of electronic equipment sales, palladium was essential for those components needing high reliability - used in aviation and some automotive applications, for example. JM's latest market review suggests that palladium demand this year, at 7.4m ounces, will exceed supplies by 1.7m ounces. In the past five years, more than 9m ounces have been withdrawn from Russian stocks. When the stocks are exhausted, Russian sales will depend on the production from its Norilsk Nickel combine.

Short supply, Page 22



Allianz chairman Henning Schulte-Noelle, right, with his AGF opposite number Antoine Jeancourt-Galliani answer questions at a Paris news conference after the Allianz offer.

Allianz boss hints at AMB sale

By Andrew Jack in Paris

Allianz's FF60bn (\$10.5bn) friendly takeover bid for AGF of France could lead to the sale of AMB, the German insurer which is controlled by the two groups. Henning Schulte-Noelle, chairman of Allianz, said at a press conference in Paris yesterday that neither Allianz nor AGF considered AMB to be a "strategic investment". His comments came in spite of assurances in the past by Antoine Jeancourt-Galliani, chairman of AGF, that AMB was a strategic asset. AGF holds a 33 per cent stake, while Allianz holds 5 per cent directly and a far larger influence through cross-shareholdings with allies such as Dresdner Bank.

Allianz, Germany's biggest insurer, announced the bid late on Monday. It wants to acquire 51 per cent of AGF, through either a cash offer at FF330 a share or the issue of "detachable rights" guaranteeing compensation if AGF's shares have not reached FF330 by June 2000. That compares with the FF300-a-share hostile bid launched last month by the Italian insurer Generali, which triggered AGF's search for a "white knight". Mr Schulte-Noelle said Allianz would maintain a minority presence on AGF's board.

"Bringing together the two groups would initiate significant operational synergies, both through increased revenues and reduced costs," he said. Mr Schulte-Noelle also indicated that AGF would, under his control, maintain its planned purchase of the French insurer Athene, part of the Worms group for which AGF and IRI of Italy have made a friendly joint bid. Top managers at Generali were holding closed-door talks at the company's headquarters in Trieste yesterday.

Editorial Comment and Observer, Page 13; Lex, Page 14; Background, Page 18

BARRY RILEY

Loosened bonds break free from stocks



Bonds - high quality ones, anyway - have suddenly acquired an extra appeal as the equity risk premium has widened and there is nervous speculation about global deflation.

In good times, investors regard bonds as poor relations of stocks. The two classes of securities move more or less together, but the overall return on equities is higher - so why bother with bonds? After all, in recent years, bonds have turned out to be riskier, in the sense of more volatile, notably in 1994. Therefore, US mutual fund buyers, for instance, have shifted decisively from bond funds to stock funds during the 1990s.

In the past few months, however, bonds and stocks have parted company. The US 30-year Treasury bond yield, for instance, has fallen since August from 6.7 per cent to scarcely above 6 per cent, but the US equity market has suffered a shakeout over the same period. The previous surge of strength in bonds between April and July, however, had been more than matched by stocks.

We have become used to stock and bond markets being tied together through yield ratios - originally the ratio of bond yields to equity dividend yields, although the latter have tended to be replaced by earnings yields as dividends have dwindled. There has always been something unconvincing about this relationship because a nominal yield is

being compared with a real yield. Perhaps that is why the ratios have varied for opaque reasons between different countries (and, over long periods, in the same countries). There are rough and ready implied adjustments being made for inflation here. High inflation in the 1970s led to underpricing of equities. As inflation declined, the valuation basis strengthened consistently, and the general view is that still lower inflation would justify even fancier earnings multiples. That, at any rate, was the bull market argument.

earlier this year as multiples in the US rose to well above 20. But zero inflation or, worse, actual deflation would imply a general loss of corporate pricing power. Equity risk would rise and average valuations should weaken. The precedent is provided by Japan, where bond and share prices have been moving in opposite directions since 1980. At the start of the decade, Japanese government bond yields were a little higher than present US Treasury yields, but they are now 1.7 per cent, so that bonds have given strongly positive total returns while the stock market has

This announcement appears as a matter of record only

\$350,000,000

HUBER

J.M. Huber Corporation

Senior Notes due 2007-2027

Private placement of these securities with institutional investors has been arranged through the undersigned.

Schroder & Co. Inc.

October 1997

In Schroders

COMPANIES AND FINANCE: INTERNATIONAL

Lower orders hit Japan's contractors

By Bethan Hutton
in Tokyo

Japan's largest construction companies reported lower-than-expected first-half profits as public spending cuts and the consumption tax increase led to lower orders. All the companies had forecast lower profits, but the worsening economic conditions surpassed predictions. Full-year forecasts were revised downwards by about half of the companies reporting yesterday.

Hazama, a civil engineer-

ing contractor, said restructuring would push it into its first annual net loss in 20 years. It also expects to suspend dividends for the first time.

The first-half net loss reached ¥29.6bn (\$235m), against a profit of ¥1.1bn, while the full-year net loss is expected to hit ¥72bn, after an extraordinary loss of ¥128bn from restructuring measures. Part of the extraordinary loss will be offset by the sale of around ¥40bn of assets, including the site of its headquarters.

Hazama had previously forecast a net profit of ¥2bn. Pre-tax profits should increase almost 50 per cent to ¥18bn, because of sales of securities. Sales, which were down 7.6 per cent in the first half, are forecast to fall 6.7 per cent in the full year, to ¥528bn.

Pre-tax profits at Kajima, one of the leading general contractors, fell 19.6 per cent to ¥8.25bn at the half-year and sales dropped 12.7 per cent to ¥578bn, below the forecast ¥600bn. Kajima maintained its interim divi-

dend of ¥4.5. Forecasts for the full year were unchanged with sales likely to be ¥1,500bn, down 6.4 per cent; pre-tax profit of ¥22bn, down 12.2 per cent; and net profits fractionally down to ¥10bn.

Obayashi, another of the big five contractors, reported a 45 per cent drop in interim pre-tax profits, to ¥8.35bn, with net profits down 35.6 per cent. Orders fell 17.7 per cent overall, despite an increase in overseas orders. Obayashi cut its full-year forecast for pre-tax profits to

¥27bn, down 8.2 per cent from last year's figure, and 6.5 per cent lower than the previous estimate. Sales are expected to fall 4.7 per cent to ¥1,440bn and net profits down 1.4 per cent to ¥12.5bn, rather than a projected increase to ¥13bn.

Taisei cut its full-year forecast for pre-tax profits to ¥23bn from ¥27bn, against last year's actual figure of ¥26.1bn. Sales are expected to decline to ¥1,450bn, against last year's ¥1,566bn, and the previous forecast of ¥1,500bn.

Nishimatsu maintained its profit forecast, but reported first-half earnings below expectations. Pre-tax profits dropped 42.4 per cent to ¥1.54bn, and net profits fell 44.7 per cent to ¥324bn.

Shimizu's first-half earnings came in almost exactly on target, but were helped by ¥4.6bn from sales of shareholdings, as revenues fell 1.9 per cent. As expected, first-half net profits dropped 42.8 per cent to ¥2.9bn, partly because of valuation losses. Shimizu left its full-year forecast unchanged.

Walt Disney earnings surge to record \$2bn

By Christopher Parkes
in Los Angeles

Walt Disney yesterday reported record annual earnings of almost \$2bn and set the stage for further advances in the current year.

Net income rose 18 per cent in the final quarter to \$411m, taking profits for the year to \$1.67bn - a 25 per cent increase.

Earnings per share in the quarter to the end of September matched analysts' estimates with an 18 per cent rise to 60 cents, while the annual figure rose 25 per cent to \$2.75.

The results had given the group "important momentum" as it prepared to launch several new businesses during 1998, said Michael Eisner, group chairman and chief executive.

Disney's Animal Kingdom, the fourth and biggest theme park in the company's Florida complex, is due to open in April, shortly after the

maiden voyage of the first of two ships ordered to launch a venture in cruising between the company's Florida properties and its private island in the Bahamas. Further US openings are planned for Club Disney family entertainment venues, mainly in suburban shopping malls, and the group also plans to roll out the ESPNi Grill, a chain of sports bars and restaurants to exploit the brand of its cable sports networks.

The fourth quarter's progress was driven mainly by a 20 per cent rise to \$448m in operating income at the creative content division, which includes film, video, retailing and related products. Revenues were 2 per cent higher at \$2.74bn.

Among films, Disney credited the international success of *Hercules* and the domestic release of *George of the Jungle*, a live action feature which helped compensate for the relatively weak US showing of *Hercules*.



Battling on: the international success of *Hercules* helped compensate for the film's relatively weak showing in the US

Broadcasting results showed signs of continuing problems with the ABC television network. Operating income rose only 1 per cent

to \$241m on revenues up 9 per cent at \$1.5bn.

However, theme parks came in with record earnings for the quarter and the

year with annual operating income ahead 15 per cent at \$1.1bn while the final three months showed a 12 per cent rise to \$272m.

Group revenues in the closing quarter rose 5 per cent to \$5.5bn, bringing the year's total to \$22.5bn, up 6 per cent.

Dresdner RCM chief rules out bid for LGT

By Jane Martinson,
Investment Correspondent

Dresdner RCM Global Investors, the asset management company owned by Dresdner Bank, yesterday ruled out a bid for the whole of LGT Asset Management, the company put up for sale by Prince Philipp of Liechtenstein earlier this week.

In announcing final regulatory approval for the company's change of name yesterday, Bill Price, chairman, said an acquisition of LGT was "nowhere on the radar".

He denied any interest in further acquisitions "for some time out into the future" as the group concentrated on its offering of its asset management products around the world.

The group, which manages \$55bn in assets, would be more likely to look at individual fund managers or teams rather than the whole business.

The Liechtenstein royal family decided to put LGT Asset Management up for sale after a strategic review highlighted the increased dominance of global groups.

The company, which manages funds of almost \$40bn in the US and continental Europe, is expected to fetch more than \$1bn.

The sale is expected to attract large European or US banks because of its size.

Dresdner Bank, Germany's second-largest bank, was seen as a potential candidate as it has emphasised its interest in developing its asset management activities in the UK and elsewhere.

Yesterday's launch officially ended the association between the Kleinwort Benson name and asset management.

Dresdner bought Kleinwort Benson in 1995. Last November it announced it was restructuring its non-German asset management operations under RCM Capital Management, an institutional fund manager based in San Francisco. Kleinwort Benson remains as part of the investment banking name.

Mr Price said yesterday's approval was the result of a year's work in creating "a seamless, global asset management company".

Renong reveals the cracks

The share purchase by UEM is a sign of financial disarray

The purchase of a large stake in Renong, Malaysia's top infrastructure company, by its subsidiary, UEM, is a sign of deep financial disarray in the corporation which carries the government's modernising vision upon its shoulders.

UEM, a toll-road operator and darling of foreign investors, was obliged to buy 723m shares, or a 32.6 per cent stake, at a hefty premium to the market price for a total M\$2.39bn (US\$716m).

Analysts said the restructuring was aimed at bailing out Renong, freeing cash to allow the company to continue with key projects and, perhaps most important, providing its controlling shareholder, Halim Saad, with the means to service what bankers say are large personal debts in US dollars. Neither Mr Halim, Renong nor UEM would make any comment on the deal.

Mr Halim has been known to invest in some projects through various, often confidential, personal investment holding companies. He used one, a Hong Kong-registered company, earlier this year to buy the National Steel Corporation of the Philippines for more than M\$1bn, bankers said.

The UEM deal may have

involved Mr Halim, who is believed to hold nearly 30 per cent of Renong's shares, selling some or all of his holding to UEM to raise cash, analysts said.

"It appears that foreign bankers were starting to call in their debts as collateral values fell," said one investment analyst in Kuala Lumpur.

Renong's share price fell 59 cents, or 20 per cent, to M\$2.31. UEM's shares, however, fell M\$0.86, or 38 per cent, to M\$2.29 yesterday.

Industry analysts said that sentiment had turned against UEM mainly because it had borrowed the M\$2.4bn it needed to finance the deal from local banks at a time when interest rates are certain to rise. The loan is to be serviced by revenues from UEM's 30-year toll concession on the North-South Highway, Malaysia's flagship privatisation project which went into operation in 1994.

But the revenue stream from this project is not assured. A debate is taking place in political circles as to whether UEM will be awarded the 6 per cent toll increase from January 1998, as stipulated in its privatisation contract.

Some politicians insist

that in the current economic downturn, people cannot bear the burden of such an increase. They favour renegotiating UEM's toll contract.

Renong, which is the chief financial arm of the United Malays National Organisation, the country's dominant political party, is burdened with considerable costs for projects which the government regards as top priorities.

One is the M\$4.35bn Putra light rail system in Kuala Lumpur, which the government wants finished by the Commonwealth Games in September 1998.

Equity financing for Putra is all but impossible because of the depressed stock market. Other projects which will require funds in the foreseeable future are Putrajaya, a M\$20bn administrative city under construction, and Cyberjaya, a M\$10bn city near Kuala Lumpur which is due to be built from next year.

Renong is the leading private sector company in both projects and must shoulder much of the fundraising burden.

Dr Mahathir Mohamed, the prime minister, insists

that the two city projects, which form the infrastructure for his "multimedia super corridor" - a kind of "Silicon Valley" - must go on. Analysts, however, said that the effectiveness of Renong's participation in the project was now in doubt.

The implications of the UEM deal, though, go beyond the Renong group. The fact that authorities granted the toll operator a waiver from having to make a general offer for Renong undermined the sanctity of corporate governance in Malaysia, analysts said. The rules state that any company acquiring more than a 33 per cent stake must make a general offer. (Mr Halim's personal stake in UEM would have taken their combined stake in Renong to beyond 33 per cent.)

Investors have started to scour Malaysia's corporate landscape for other cash-rich subsidiaries which could be pillaged by an indebted parent with close political ties.

"The fact that this happened probably means that there are more male-outs down the road," said Chong Yoon Chon, investment manager at Aberdeen Asset Management in Singapore.

James Kyne

PUBLIC NOTICES

NOTICE PUBLISHED BY THE SECRETARY OF STATE UNDER SECTION 7(7) OF THE TELECOMMUNICATIONS ACT 1984

The Secretary of State hereby gives notice as follows.

1. She intends to revoke on 31 December 1997 the Class Licence to run Branch Systems to provide Telecommunications Services which was granted by the Secretary of State under Section 7(7) of the Telecommunications Act 1984 ("the Act") on 9 September 1996 and on 31 December 1997 issue a new Class Licence to run Branch Systems to provide Telecommunications Services. The licence will be for a period of 25 years subject to earlier revocation in circumstances specified in the licence.

2. Various amendments have been made to the licence to bring the conditions and definitions into line with the requirements of the EC Licensing Directive (97/13/EC), the EC Interconnection Directive (97/33/EC) and for other reasons. There are four main variations between the current licence and the new licence. (i) The introduction of new conditions on fair trading, controlled services (premium rate services), numbering and number portability. (ii) New interconnection conditions have been included to align with the requirements of the EC Interconnection Directive. These conditions introduce rights and obligations to interconnect for those operators who are providing interconnection services in accordance with the Interconnection Directive. (iii) New conditions have been included in the licence for conditional access services. (iv) It is also proposed to widen the scope of the Applicable Systems that can be run under the licence to include the "2000 series" and permit the running of systems situated in and linking up to 20 separate sets of premises within a single contiguous boundary under a common management regime.

3. Representations or objections may be made in respect of the proposed new licence. They should be made in writing by 10 December 1997 and addressed to the undersigned at the Department of Trade and Industry, Communications & Information Industries Directorate, Room 2.08, 151 Buckingham Palace Road, London SW1W 9SS. Copies of the proposed licence and accompanying guidance notes detailing the proposed changes can be obtained free of charge by writing to the Department or by calling 0171 215 1746.

Simon Moseley
Department of Trade and Industry

Phelps Dodge agrees Accuride sale

By Nikk Tait in Chicago

Phelps Dodge, the large US copper producer, yesterday announced that it had agreed to sell its Accuride wheel rim and manufacturing business to a management buy-out led by an affiliate of Kohlberg Kravis Roberts, the New York investment banking firm, for \$480m.

Under the deal, Accuride's management and KKR will acquire a 90 per cent interest

in the business, and Phelps Dodge will retain the remaining 10 per cent.

Accuride, which makes wheels and rims for heavy and medium-weight vehicles and for some light commercial trucks, had sales of just over \$300m in 1996. It takes in steel wheel operations in the US, Canada and Mexico, and is involved in producing aluminium wheels through a joint venture arrangement in Erie, Pennsylvania. It is also part of a commercial tyre

and wheel assembly joint venture at Springfield, Ohio.

The deal is expected to close either later this year or in early 1998, and is subject to completion of financing arrangements by the buy-out team.

KKR said that it had been following the heavy-duty truck and trailer sector for some time, and saw an opportunity to build the Accuride franchise internationally.

Phelps Dodge, whose reve-

nues were close to \$4bn last year, said last month that it was talking to potential buyers about the possible sale of Accuride. It said at that stage that a disposal would allow it to concentrate on its core mining business.

Yesterday, Douglas Yearley, Phelps chairman, repeated that message, saying that the sale permitted the company to "focus on... global growth plans in mining, wire and cable, and specialty chemicals".

AT&T in internet music talks

By Alice Rawsthorn
in London

AT&T, the US telecoms group, is in talks with record labels belonging to PolyGram, Time Warner and EMI regarding a project to deliver their music directly to consumers' personal computers over the Internet.

Bertelsmann, the German media group behind the Arista and RCA labels, has already reached agreement with AT&T.

The German company is participating in a trial, whereby consumers can download a song by the Verve Pipe, one of its US rock groups, from A2B

Music, an internet juke-box operated by AT&T.

A2B Music was launched yesterday on the world-wide web.

Consumers can download *Reverend Girl*, a three-minute track by the Verve Pipe, within eight minutes on to any personal computer with a sound card and an average speed modem.

Digital distribution of music is one of the most important issues facing the music industry.

Most record companies already sell albums and singles by mail order through internet retailers, such as CD Now and Tower Online. Some labels, notably Sony

Music, have recently launched their own online record stores.

Yet until recently, multinational music companies have been reluctant to move on to the next stage of digital distribution by allowing consumers to download songs directly from the Internet into their computers in the form of digital signals.

They have been deterred by the dearth of copyright protection for digitally distributed music, and by the risk of piracy.

Similarly, consumers have complained about the length of time it takes to download music from the Internet - typically at least 20 minutes

for a three-minute song.

AT&T claims that its A2B Music software has reduced the time taken to download the same song to just eight minutes.

The company also says that the technology prevents consumers from making unauthorised copies of the digital signal.

Having secured Bertelsmann's co-operation for the A2B Music trial, AT&T is now pressing ahead with negotiations with PolyGram and Warner Music in the US.

Larry Miller, chief operating officer of A2B Music, flew to London from New York yesterday for meetings with EMI executives.

AMERICAS NEWS DIGEST

CoreStates set to be taken over

CoreStates, the Philadelphia-based bank that has been on the receiving end of a number of acquisition approaches, appeared on the brink yesterday afternoon of agreeing to a takeover that would rank as the biggest bank deal yet in the US.

First Union, the acquisitive North Carolina bank, emerged as the favourite to secure the embattled CoreStates, whose future has been in doubt since news emerged of a unsolicited bid approach from Pennsylvania rival Mellon Bank last month. The CoreStates board was believed to be meeting yesterday afternoon to approve the acquisition, and a First Union spokesman declined to comment.

If completed, the deal could value CoreStates at as much as \$17bn, topping the \$14bn that First Union's local rival, NationsBank, agreed to pay for Barnett Banks earlier this year. The competition that has broken out for CoreStates in recent weeks reflects its important position in the mid-Atlantic region, where a number of large banking groups have been battling to gain a dominant foothold. CoreStates' shares jumped 5%, or 9 per cent, yesterday morning before trading was officially halted on the New York Stock Exchange. Shares in First Union fell \$2½ to \$50¼.

Richard Waters, New York

NATURAL RESOURCES

Noranda to sell Norcen stake

Noranda, the Canadian diversified natural resources group, has said it will divest its energy and forestry holdings in order to improve its rate of return on equity by focusing on its mining and metallurgical operations.

One of the world's largest nickel and zinc producers, Noranda said it would sell its 49 per cent stake in Norcen Energy Resources for cash and use the proceeds to expand its metals operations. Norcen, which has a market capitalisation of about C\$3.3bn (US\$2.33bn), immediately said it would begin a review of strategic alternatives to enhance shareholder value as a result of Noranda's decision to spin off its stake. David Kerr, Noranda chief executive, said the energy company could be sold whole, but he declined to speculate on Norcen's sales price or potential suitors.

Mr Kerr said the proceeds from the Norcen sales will be used to pay down debt, which stood at C\$3.6bn at the end of 1996. Proceeds would also finance various initiatives, such as the recently announced plan to build a C\$720m magnesium plant in Quebec. The company also said it would distribute its 86 per cent share of Noranda Forest and wholly-owned Canadian Hunter Exploration to Noranda's shareholders as a dividend. Noranda's forest products and oil and gas holdings amount to almost 50 per cent of the parent company's total assets.

Mr Kerr said Noranda has not earned an acceptable rate of return on equity and it has decided to focus on the mining and metals sector, which had best return on equity of company's three divisions. The chief executive said the company's objective is to double its rate of return on equity over five years to 12 per cent.

Investors reacted positively to the news, sending Noranda's share price up almost 10 per cent in early trading in Toronto.

Scott Morrison, Toronto

CAMPBELL SOUP

Profits rise 8% in quarter

Campbell Soup, the US soup and food company, increased net profits by 8 per cent to \$267m in its fiscal first quarter to November 2, but earnings per share increased by 16 per cent to 58 cents because of heavy stock repurchases over the last year. The figure fell just short of the expected 59 cents a share.

The company said the growth was driven by big increases in sales of canned and bottled soups, which rose by 6 per cent in volume and 12 per cent in value worldwide. There were strong performances from Canada, Germany, the UK and Japan, while in the US, the company's biggest market, volume rose by 2 per cent, led by double-digit sales growth in ready-to-serve soups. Overall, the soup and sauce division's revenues rose by 10 per cent to \$1.2bn and its operating profits rose by 12 per cent to \$369.5m.

Richard Tomkins, New York

ENVIRONMENTAL TECHNOLOGY

Molten Metal faces closure

Molten Metal Technology, the Massachusetts-based company once praised by Al Gore, US vice-president, for its cutting-edge environmental technology but which then became embroiled in a presidential campaign finance scandal, said this week that it may be nearing closure.

The company, which has more than \$250m in debt and just \$10m in equity, announced that William Haney, chief executive, was quitting the group, and would be replaced by Gordon Bitter, formerly chief financial officer.

Molten Metal sold high-heat metal baths to break down hazardous material - including nuclear waste - into benign parts. It was once heralded as a shining light of the ecology movement, but it failed to make significant sales. The company made large contributions to Mr Gore and the Democratic party. It won contracts worth \$83m with the Federal Energy department, but these are now suspended while they are being investigated. The group's share price has fallen from a high of \$40 in 1995 to just \$1½ at Monday's close.

Victoria Griffith, Boston

OIL

UPR scraps bid for Pennzoil

Union Pacific Resources has scrapped its \$6.4bn hostile takeover bid for Pennzoil in the face of a stonewall resistance from the target. UPR, which withdrew its offer after almost five months, had signalled the end of its bid last week when it said it would withdraw its \$64-a-share cash offer if Pennzoil refused to negotiate.

The contest was marked by ill-tempered attempts to force Pennzoil to dismantle its "poison pill" anti-takeover defences, and preceded by four months of fruitless efforts by UPR to persuade it to open friendly merger talks. UPR, which has annual revenues of about \$2bn, compared with Pennzoil's \$2.6bn, presented its offer as an attempt to create the "premier independent exploration and production company in the US".

Christopher Parkes, Los Angeles

COMPUTER SOFTWARE

Adobe warns on revenues

Adobe Systems shares fell sharply yesterday after the software company said its revenues for the fiscal fourth quarter would be lower than expected.

SoundView research director Russ Crabs, who attended Adobe's presentation at SoundView's technology outlook conference today, said a missed product sales cycle late in the quarter would hurt revenues by about \$5m-\$10m for the period. Stronger-than-expected product margins were expected to help Adobe limit the earnings-per-share impact to "a few pennies" in the quarter, Mr Crabs said.

Adobe, which sells its product in cycles to distributors and dealers, said it did not deliver an expected late-quarter cycle. Its shares were down 4¼ at \$44 in early trading yesterday.

Reuters, Boca Raton, Florida

Comments and press releases about international companies coverage can be sent by e-mail to international.companies@ft.com

COMPANIES AND FINANCE: UK

Laura Ashley chief quits

By Peggy Hollinger

Laura Ashley yesterday parted company with its highly paid and controversial chief executive, Ann Iverson, who has presided over the company's sharp fall into loss in the past year. The company, which is known for its floral patterns and quintessentially British country image, has changed its senior management four times in the past seven years in a so far futile effort to revive its fortunes.

Ms Iverson, who took over as chief executive in 1996, initially enjoyed some success but this year the company announced three profit

warnings and pre-tax losses of £4.5m (£7.5m) in September. The company said Ms Iverson would depart with immediate effect, to be replaced by David Hoare, who was drafted in by chairman John Thornton to take over day-to-day running of the business. Finance director Jim Walsh will also leave as soon as a replacement can be found. It is understood that the non-executive directors - including 35 per cent stakeholder and former Sir Bernard Ashley - decided on Monday night to ask for the resignations of Ms Iverson and Mr Walsh.

The American-born Ms Iverson, who earned more than £1m last year in salary and bonuses, will leave with a payment equal to her basic salary of £600,000. Mr Walsh will receive £300,000 - also his basic salary. It appears that trading to the past three months has deteriorated in North America, where Ms Iverson was pursuing an aggressive expansion programme until it was halted on the arrival of Mr Hoare. Analysts are expecting the group to incur losses this year of about £10m, entirely due to the US stores, against forecasts of about £5m in September. One long-time institutional

investor described his recent experience as "one sorry episode. [Ms Iverson] had seriously misjudged the North American market. She had significantly raised expectations, but she just did not deliver." Although Mr Hoare's remuneration has not yet been settled officially, he is understood to be on a basic salary of £200,000 a year, half of which will be reinvested in Laura Ashley shares. In addition, he will have an option package which becomes exercisable over a three-year period beginning in 2000. See Lex, back page

Government blocks sale of Sears arm

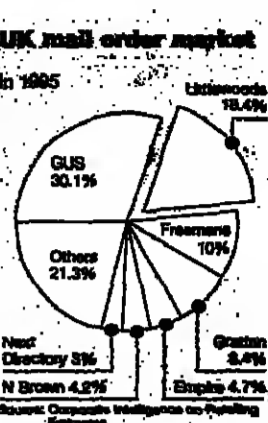
By Peggy Hollinger

The government yesterday dealt a severe blow to Sears, the struggling retail conglomerate, as it blocked the proposed £370m (£625.3m) sale of its home shopping arm to Littlewoods, the private pools and mail order group. The disposal of Freemans was crucial to the company's plans to make a meaningful cash payment to shareholders, who have watched their investments tumble by 42 per cent in the past two years. Now investors are unlikely to get much more than the £80m - roughly 5p a share - raised from the disposal of a Scottish shopping centre earlier this year. Margaret Beckett, trade and industry secretary, took what appears to be an increasingly tough line against market consolidation. She backed the monopolies and mergers commission findings that the combination of Freemans and Littlewoods could be expected to operate against

the public interest. Her main concern was that agency mail order - where agents sell products in return for commission - is still relied on by a significant proportion of lower income households as a source of credit. "Neither the high street nor other forms of home shopping (particularly direct mail order (without agents)) could be regarded as adequate substitutes for agency mail order," she said. Although market leader Great Universal Stores would still have a larger share of UK agency mail order, consolidation would mean that two players controlled more than 80 per cent of the industry. "This increase to concentration could be expected to reduce the level of existing competition significantly, leading to a detrimental effect on choice, prices or efficiency in the agency mail order market," she said. Sears said it would now focus on demerging Freemans in 18 months' time.

LEX COMMENT Littlewoods

Political considerations were always going to get in the way of Margaret Beckett, trade and industry secretary, sanctioning Littlewoods' attempt to buy the Freemans mail-order business. With the combination likely to have about 30 per cent market share, she would have appeared anti-competition. And with some of its customers credit-dependent, she could have been portrayed as strengthening the hand of business at the expense of the poor. Good politics, however, need not equate to sound business. And in this case, Ms Beckett is guilty of setting policy with her gaze locked firmly on the rear view mirror. The reality is that, for all the fancy market share figures, agency mail-order is a business in decline. Credit is much more readily available than it used to be, and all the growth is coming in the direct mail-order market. Moreover, the market share figures are misleading: the likes of Littlewoods and GUS face stiff competition from the high street and, increasingly, from direct mail order where mighty names like Marks and Spencer are muscling in. Not for nothing is GUS, the market leader, spending most of its energy diversifying into information services. Ms Beckett may fly the pro-competition flag, but all she has achieved is to delay the inevitable consolidation of a sector that has fallen out of fashion. Arguably, she has also retarded the interests of those she hopes to protect: the lower cost base of a merged entity would have allowed more aggressive credit decisions.



Taylor Nelson AGB buys Sofres

By Eniko Terezo

Taylor Nelson AGB, the UK market research company, is buying Sofres of France for FF1.16bn (£200m) to create Europe's leading and the world's fourth largest market information group. The deal, to be financed by a rights issue and bank borrowings, allows Taylor Nelson to service multinational groups which face increasing needs for global market research. "With the operations of the combined group in 28 countries, we can now offer our products to the Coca-Colas and the IBMs throughout the world," said Tony Cowling, chief executive of Taylor Nelson. Sofres had revenues of FF1.1bn (£144m) and oper-

ating profits before exceptional charges of FF102m last year. The group, which focuses on ad hoc products, has been building up its international network through acquisitions. Taylor Nelson will raise £50m (£88.7m) by way of a 4-for-8 rights issue of 101.1m shares at 50p each. Finalist, the majority shareholder of Financials Sofres, Sofres' parent company, will subscribe £27.7m for new equity in Taylor Nelson, equivalent to 11 per cent of the enlarged group. Mr Cowling said the merger would be earnings enhancing in the first year. Peel Hunt, the stockbroker, upgraded its earnings per share forecast for 1998 from 3.1p to 4.4p.



Taylor Nelson's Martin Frame, FD (left), and Tony Cowling

RESULTS		Turnover (£m)		Pre-tax profit (£m)		EPS (p)		Dividends		Total for year		Total for year	
		1996		1997		1996		1997		1996		1997	
BOC		Yr to Sept 30	3,678	(3,732)	445	(445)	88.31	(67.74)	14.5	13.5	29	27	27
Capital		6 mths to Sept 30	14.75	(11.16)	1.52	(0.77)	6.471	(3.74)	1.8	1.5	4.75	4.75	4.75
Chandos & Hill		6 mths to Sept 30	43.9	(13.3)	1.35	(0.50)	18.29	(7.58)	3	2.6	8.1	8.1	8.1
Copper (London)		6 mths to Sept 27	26.9	(29.4)	1.47	(2.05)	11	(18.2)	1.4	1.3	4.7	4.7	4.7
De La Rue		6 mths to Sept 30	378	(382)	58.3	(60.3)	18.6	(18.7)	7.5	7.5	24	24	24
Enterprise Inc		Yr to Sept 30	80.3	(38.1)	12.74	(6.34)	18.24	(14.4)	5	4.5	6.75	6.75	6.75
Farnell (Ireland)		6 mths to Sept 30	4.48	(4.61)	0.011	(0.025)	0.051	(0.22)	-	-	-	-	-
Fast Forward		6 mths to Sept 30	3.8	(3)	0.1	(0.16)	2.6	(2.1)	-	-	-	-	-
GfK Portland		6 mths to Sept 30	59.6	(47.6)	15.44	(21.5)	3.31	(5.1)	2.9	2.9	9	9	9
Hutchinson Holdings		6 mths to Sept 30	7.52	(6.08)	0.422	(0.080)	1.48	(0.28)	0.5	0.5	2	2	2
Hutchinson		6 mths to Sept 30	13.7	(18.9)	0.532	(0.408)	0.2	(0.1)	0.8	0.8	7	7	7
Hutchinson (Ireland)		6 mths to Sept 30	88.1	(73.8)	11.32	(10.5)	12.86	(11.5)	2.35	2.35	1.8	1.8	1.8
Hutchinson (UK)		6 mths to Sept 30	139	(135)	15.25	(13.7)	6.76	(5.37)	1.5	1.5	5.2	5.2	5.2
Hutchinson (US)		6 mths to Sept 30	26.5	(25.4)	0.1671	(0.200)	0.23	(0.28)	0.1	0.1	0.25	0.25	0.25
Northern Foods		6 mths to Sept 30	698	(641)	88.6	(89.7)	8.78	(7.48)	4	3.8	8.4	8.4	8.4
Northern (Ireland)		6 mths to Sept 30	314	(236)	37.44	(32)	21.7	(16.7)	6.05	5.5	20.9	20.9	20.9
Purcell		Yr to Sept 30	1.28	(1.46)	0.03	(0.04)	14.4	(15.4)	32	32	57	57	57
Rothmans		6 mths to Sept 30	23.1	(23.1)	2.94	(2.94)	1.7	(1.7)	0.7	0.7	1.8	1.8	1.8
Tidley Case		6 mths to Sept 30	6.27	(4.95)	0.288	(0.322)	2.7	(4.5)	1.6	1.6	5	5	5
Vodafone		6 mths to Sept 30	1,164	(772)	237.54	(282.4)	6.23	(5.67)	2.71	2.36	4.81	4.81	4.81
Vodafone (Ireland)		6 mths to Sept 30	30.2	(107.3)	13.84	(12.7)	28.3	(25.8)	8.25	7.5	26	26	26
Vodafone (UK)		6 mths to Sept 30	30.2	(107.3)	13.84	(12.7)	28.3	(25.8)	8.25	7.5	26	26	26
Investment Trusts		Yr to Sept 30	67.41	(74.51)	3.57	(3.48)	8.73	(7.21)	1.71	1.85	8.85	8.85	8.85
Altrac High Inc		Yr to Sept 30	67.41	(74.51)	3.57	(3.48)	8.73	(7.21)	1.71	1.85	8.85	8.85	8.85
Shanghai Telecom		Yr to Sept 30	67.41	(74.51)	3.57	(3.48)	8.73	(7.21)	1.71	1.85	8.85	8.85	8.85

Earnings shown basic. Dividends shown net. Figures in brackets are for corresponding period. After exceptional charge. After exceptional credit. 10m increased capital. 10m stock. 10m rental income. Excluding rental income. *Already paid. **Fourth interim dividend.

SVENSKA SELECTION FUND SICAV
Société d'investissement à capital variable
Registered Office: 146, Boulevard de la Pétrusse, L-2338, Luxembourg
B.C. Luxembourg 3.2.113

The shareholders of Svenska Selection Fund (the "Company") are hereby convened to attend the

EXTRAORDINARY GENERAL MEETING OF SHAREHOLDERS
of the Company, to be held at its registered office at 146, Boulevard de la Pétrusse, Luxembourg at 16.00 pm on Wednesday, November 20, 1997, with the following agenda:

1. Modification of article 16 paragraph 4 of the Articles of Incorporation, to give a new definition of the expression "Eligible State".
The new paragraph will read as follows: "Eligible State" shall mean any country wherever in Europe, Americas, Asia, Africa or Oceania and Australia.
2. Miscellaneous.

Voting:
Provided a quorum of at least one half of the issued shares are present or represented at the meeting, decisions are validly taken at the extraordinary general meeting by a majority of two thirds of the shares present or represented.

A revised version of the proposed Articles of Incorporation is available for inspection and a copy thereof may be obtained from Svenska Handelsbanken S.A. by any shareholder on request.

Holders of bearer shares should deposit their shares at least 3 days prior to the meeting at a bank of their choice and shall be admitted on the basis of the evidence given thereof, or as Svenska Handelsbanken S.A., 146, Boulevard de la Pétrusse, L-2338 LUXEMBOURG.

The Board of Directors

NATIONAL BANK OF CANADA
USD 200,000,000 Floating Rate Notes due 2001

In accordance with the Terms and Conditions of the Notes, notice is hereby given that for the Interest Period from November 19, 1997 to February 18, 1998 the Notes will carry an interest rate of 5.975% per annum.

The Coupon Amount payable on the relevant Interest Payment Date, February 18, 1998 will be USD 152.68 per USD 100,000 principal amount of Note and USD 1,526.84 per USD 100,000 principal amount of Note.

The Calculation Agent
KBL Kreditbank Luxembourg

computron
SOFTWARE

is now traded on the
American Stock Exchange

New Ticker Symbol
COW

Knowledge Management Software
for Business and Finance

For more information on Computron Software
and its products, contact 01-823-474-200 or visit
our website at www.computronsoftware.com

BOC to focus on gas operations

By Michael Peel

BOC yesterday announced plans to increase operating profits from its industrial gases business by at least 10 per cent a year for the next 5 years. Danny Rosenkranz, chief executive, set the new target after announcing flat pre-tax profits of \$445.2m (\$752.4m) in the year to September 30. He said the strength of sterling reduced profits by \$27.9m.

Mr Rosenkranz confirmed

that BOC planned to concentrate on developing its gases businesses, which accounted last year for 77 per cent of group sales of \$3.68bn (\$3.75bn). Mr Rosenkranz said he would have a shortlist of bidders for Omeida, BOC's healthcare business, by December and was not planning any further acquisitions or diversifications. The group would build up its gases operation through expenditure on factories.

Ferries clearance expected

By Emma Tucker in Brussels

Margaret Beckett, trade secretary, is today expected to clear the proposed alliance between Peninsula & Oriental Steam Navigation and Stena Line on key cross-Channel ferry services, but with substantial conditions.

The announcement is expected to be made together with a statement from the European Commission clarifying its view of the case under EU competition law. Mrs Beckett was waiting for clarification before taking a final decision, to be certain that the

UK authorities' verdict would not face a challenge in the European Court. The conditions are likely to include a review of the deal after three years and a price capping regime on the companies' merged operations to avoid steep price increases.

Kazakhstan deal is signed

By Arkady Ostrovsky

The international activities of BP, formerly the exploration and distribution arm of British Gas, were strongly reinforced yesterday when along with several other oil and gas majors it signed two long-awaited production sharing agreements in Kazakhstan.

The deals open the way for exploring the Caspian sea, potentially one of the world's richest reserves of fossil fuels, as well as increasing production from the giant Karachaganak natural gas, condensate field in the west of Kazakhstan. The agreements have particular significance for BP, which has large stakes in both projects. BP already has a 32.5 per cent stake in Karachaganak.

BP seals \$571 Sidanco buy
British Petroleum yesterday completed the \$571m purchase of a 10 per cent stake in Sidanco, the Russian oil company, from Uneximbank, Russia's most powerful industrial group. Terms disclosed yesterday show that BP will also

acquire a 30 per cent net interest in Russia, an East-Siberian company which owns the 25 trillion cu ft Kovyktinskoe gas field. The field will add 40,000 barrels of oil to BP's daily output and 300m barrels to its reserves.

David Varney, BP's chief said: "The Karachaganak agreement gives BP a leading role in one of the world's largest oil and gas fields, substantially larger than any North Sea discovery." BP said it expected Karachaganak to represent 10 per cent of BP's asset value outside Transco, its pipeline company, by the end of the century.

TATNEFT
JOINT-STOCK COMPANY
US\$ 100,000,000
Working Capital Facility

Arranger
Lead Manager
Dresdner Bank
Aktiengesellschaft

BNP
Banque Nationale de Paris S.A.

Bayerische Hypotheken- und Wechsel-Bank
Aktiengesellschaft

Bayerische Landesbank
Girozentrale

DG BANK
Deutsche Genossenschaftsbank

Société Générale

Bank Austria Handelsbank
Aktiengesellschaft

Ost-West Handelsbank AG
Aktiengesellschaft

SGZ-Bank
Südwestdeutsche Genossenschafts-Zentralbank AG

BNP-Dresdner Bank ZAO

Kreditbank NV
Global Trade Finance Group

Technical Agent
Bank Zenit

Off-Taker
Select Energy Trading GmbH

August 1997

This notice is for the information of Bondholders only and does not constitute an offer or invitation to subscribe for or purchase any securities. The shares of Lai Sun Development Company Limited ("Lai Sun") are not registered under the United States Securities Act of 1933, as amended (the "Securities Act") and may not be offered or sold in the United States or to US persons (as defined in Regulation S under the Securities Act) in the absence of registration under the Securities Act or an exemption from the registration requirements of the Securities Act.

US\$150,000,000 Convertible Guaranteed Bonds issued by LAI FUNG OVERSEAS FINANCE LIMITED
guaranteed by
LAI SUN DEVELOPMENT COMPANY LIMITED
and after the IPO Listing Date
(as defined in the Conditions)
guaranteed instead by and convertible into shares of
LAI FUNG HOLDINGS LIMITED
(the "Bonds")

Condition 4(a) of the terms and conditions of the Bonds (the "Conditions") states that at the time of the issue of the Bonds, it was the intention of Lai Sun Development Company Limited ("Lai Sun") to issue Lai Fung Holdings Limited, ("Lai Fung China") as effect an initial public offering ("IPO") of shares of Lai Fung China (the "Shares") on or before 30 February, 1998. Terms defined in the Conditions bear the same meaning in this notice.

Notice is hereby given in accordance with Condition 18 that Lai Sun announced a proposal on 17th November, 1997 to effect an IPO of the Shares, which was intended to be listed on The Stock Exchange of Hong Kong Limited.

Further information about the IPO is set out in a circular to shareholders of Lai Sun which was dispatched on 18th November, 1997, copies of which are available for inspection at the office of Citibank N.A., as Registrar and Principal Paying, Transfer and Conversion Agent at its office at Citibank House, 336 Strand, London WC2R 1BB, England, Citibank N.A., as Paying, Transfer and Conversion Agent at its office at Avenue de Tervuren 349, B-1150 Brussels, Belgium, Citibank N.A., as Paying, Transfer and Conversion Agent at its office at 50 Floor, 111 Wall Street, New York, NY 10043, U.S.A., and Citibank (Luxembourg) S.A., as Paying, Transfer and Conversion Agent at its office at 16 Avenue Marie-Thérèse L-2132 Luxembourg.

If the IPO proceeds, a further notice indicating the consequences of the IPO for Bondholders, as required by Condition 7(a), will be published in due course.

Bondholders should note that the terms of the IPO have yet to be finalized and that the IPO may not proceed.

The Common Code number of the Bonds is 4780540. The ISIN number of the Bonds is XS0047805402.

LAI FUNG OVERSEAS FINANCE LIMITED

19th November, 1997

INTERNATIONAL CAPITAL MARKETS

Canary Wharf securitisation raises £550m

INTERNATIONAL BONDS

By Edward Luce and Samer Iskandar

Canary Wharf, the London office development, yesterday made a dramatic entrance to the eurobond market with a \$550m offering. The securitised bond, which will be serviced by income from rentals, was underwritten by Morgan Stanley, one of the development's largest clients.

The issue, split into three fixed-rate tranches and one floater, was largely placed with UK institutional investors, said an official, adding that pricing had been less affected by the recent turmoil than other deals. "Pricing talk widened by about five basis points over the last few weeks whereas other deals widened by more like 10 basis points," he said. Proceeds will be used to

refinance Canary Wharf's existing debt, most of which is short-term, and for working capital.

The fixed-rate tranches were priced to yield 72 basis points, 82 basis points and 125 basis points over gilts, respectively.

Japan's EXIM BANK chose a bold moment to hit the market with a 10-year D-Mark bond, but the deal was considered a success. Officials at Paribas, sole lead manager, said that the bond - Exim's first D-Mark offering since its five-year issue in 1995 - was priced to reassure investors worried about Japan's financial crisis.

At 24 basis points over 10-year bunds, the bond was priced to give some pickup over existing AAA-rated 10-year D-Mark deals. The Asian Development Bank and OKB, the Austrian finance house, are trading at about 21 points over bunds.

New international bond issues

Borrower	Amount	Coupon	Price	Maturity	Yield	Spread	Book-runner
US DOLLARS							
World Bank	300	6.00	99.72R	Dec 2002	0.25R	+205/320	SBC Warburg DB
Azores	65	(W)	99.963R	Aug 2002	0.25R		CSFB
D-MARKS							
Export-Import Bank of Japan	1bn	5.75	99.702R	Dec 2007	0.25R	+248/320	Paribas
EVG (E)	200	(2-24)	100.00	Dec 2002			Morgan Stanley DW
Hellenic Republic	250	(W)	99.45R	Nov 2002	0.30R		Crédit Agricole
YEN							
Abbey National Funding	250m	4.10	99.58	Dec 1999	1.50		Nomura International
NSW Treasury Corp	100m	4.50R	100.00	Nov 2002	1.75		Wolfe (Europe)
STERLING							
Canary Wharf Fin. Co. (A1)	270	7.25	100.00R	Oct 2007	0.25R	+728/320	Morgan Stanley DW
Canary Wharf Fin. Co. (B1)	80	7.45R	100.00R	Oct 2007	0.25R	+728/320	Morgan Stanley DW
Canary Wharf Fin. Co. (B2)	120	(W)	100.00R	Oct 2007	0.25R	+728/320	Morgan Stanley DW
Canary Wharf Fin. Co. (B3)	85	(W)	100.00R	Oct 2007	0.25R	+728/320	Morgan Stanley DW
FRENCH FRANCS							
Odor & Cie	500	(W)	99.95R	Dec 2002	0.20R		Paribas
CANADIAN DOLLARS							
Commerzbank Canada	100	5.25	99.50R	Dec 2002	0.275R	+305/320	TD Securities

Officials said the issue, which tightened to 23.5 basis points in the secondary market, was well-received, with about 50 per cent going to German investors. "We are already short on the deal," said one.

ABBEY NATIONAL became the first UK bank to target Japanese retail investors. Until recently, commercial banks were not allowed to sell bonds to Japanese

individuals. This restriction, however, was scrapped in April as part of a market reform package. By setting a monthly coupon payment, the borrower structured the two-year deal to compete directly with Japanese one-month bank deposits, which pay interest at 0.3 per cent.

The bonds' 6.10 per cent coupon offers a substantial premium to compensate

investors for assuming currency risk - the bonds are denominated in sterling. As part of an innovative marketing campaign, Nomura, the lead manager, is linking the bonds to Sherlock Holmes, the detective created by Arthur Conan Doyle (Abbey National's London headquarters is located on Baker Street, where the fictional character was said to have lived).

Gazprom to issue rouble bond

By Chrystia Freland in Moscow

Gazprom, Russia's largest company, plans to issue a rouble-denominated bond next year, it said yesterday. Plans for the issue follow the announcement this week of a ground-breaking strategic partnership with Royal Dutch/Shell.

That deal will be sealed by a \$1bn international convertible bond issue early next year - after it was postponed last week due to market conditions. Shell has agreed to invest up to \$1bn in the issue, with another \$1bn going to institutional investors.

Mr Alexander Semanaka, a Gazprom board member, said the domestic bond issue was part of the gas group's efforts to develop a broader range of channels for attracting capital. Initially, the company hoped to borrow \$400,000bn (\$666m) on the domestic debt market.

In its first foray into the rouble debt market, Mr Semanaka emphasised that the company's chief objective would be to set an attractive benchmark for its debt, rather than to maximise the amount it borrowed. Mr Semanaka said Gazprom, which has already borrowed nearly \$7bn on international markets, could afford to be careful in its debt placement at home.

He said he was hoping both the domestic and international bond issues would be strengthened by an audit of reserves that had already been completed. Mr Semanaka said he was confident that the audit, which is to be released early next year, would show that Gazprom is still undervalued.

CAPITAL MARKETS NEWS DIGEST

New version of JP Morgan index

J.P. Morgan will today launch a new emerging market local currency index to reflect growing investor demand for high-yielding debt in non-dollar denominated instruments. The new index - Emerging Markets Local Index Plus - expands upon J.P. Morgan's original ELMI index by adding 14 countries to the original 10.

Officials at J.P. Morgan pointed out that the index had outperformed the bank's dollar-denominated emerging market bond index during the turmoil in recent weeks. This confirmed the growing investor view that local currency debt provides a hedging opportunity for emerging market investors.

ELMI+ has been expanded by several new markets, including China, India, Indonesia, South Korea, Chile, Venezuela, Hungary, Greece, Egypt and Israel. The portfolio is calculated by monitoring one, two and three-month foreign exchange forward contracts on the emerging market currencies.

Analysts at J.P. Morgan pointed out that on a regional breakdown, returns on eastern European local currency debt remain up on the year despite the carnage wrought to its dollar-denominated debt.

In contrast, Asian debt has shown heavily negative returns. Emerging market dollar debt, meanwhile, has been hit pretty evenly across all regions, although Asian bonds have generally underperformed their emerging market counterparts.

J.P. Morgan said it would retain the original ELMI index as well as the ELMI+.

DERIVATIVES VENTURE

First Chicago joins Tokio Marine

First Chicago NBD Corporation, the eighth largest US bank holding company, and Tokio Marine and Fire Insurance, the world's second largest property and casualty insurer, yesterday announced the creation of a joint venture specialising in derivatives and focusing mainly on Asia.

The two companies will initially inject \$75m of capital into the new entity, called First Chicago Tokio Marine Financial Products. Tokio Marine, which is rated triple-A by the main credit rating agencies, will provide the venture with a financial support agreement.

When operations start early next year, roughly 30 employees from the parent companies will be dedicated to the venture. They will be supported by additional marketing, technical and managerial staff from First Chicago and Tokio Marine.

"This venture is a winning proposal both for our customers and for Tokio Marine," said Koneki Higuchi, president. "Our increased scope will help meet our customers' growing risk management needs."

Verne Istock, chairman of First Chicago NBD, said the venture would help it "serve customers in fast-growing Asian markets".

German bunds retreat from early gains

GOVERNMENT BONDS

By Vincent Boland in London and John Labette in New York

Government bond markets closed mixed in quiet trading as they digested comments on German interest rates, while further evidence of low US inflation failed to generate much spark.

GERMAN BONDS ended mostly flat after being knocked off their perch by remarks by Helmut Hesse, a Bundesbank council member, that German inflation was set to rise next year. His

comments caused bunds to retreat from earlier highs, but analysts said they did not mean that there was yet an argument for higher German interest rates.

David Knott, core Europe strategist at Deutsche Morgan Grenfell, said while Mr Hesse's comments were "out of line with recent Bundesbank thinking", there was no domestic reason to lift rates yet. "There is a general perception that if the Federal Reserve doesn't go, it is kind of hard for the Bundesbank to tighten," he added.

The December bond future settled 0.02 higher at 102.84

in heavy turnover, after touching 103.09 earlier.

US TREASURIES were down slightly by midday. The 30-year bond fell 1/8 to 100 1/8, sending the yield up to 6.07 per cent. The 10-year note lost 1/8 to 102 1/8, to yield 5.83 per cent, while the two-year note was down 1/8 to 99 1/8, to yield 5.67 per cent.

The consumer price index for October was reported to have risen 0.2 per cent, confirming the expectation that inflation remains low. Excluding the food and energy sectors, core CPI also rose 0.2 per cent. In a separate report, business inventories

for September were shown up a greater than expected 0.7 per cent rate. Real earnings were also reported as rising 0.3 per cent.

The CPI figure did little to move the market. "There was an early spike and then some profit-taking by a few large accounts," said John Spinnato, Treasury strategist at Merrill Lynch.

After a strong opening session, UK GILTS again marked time ahead of the release of October retail sales data today. The December future settled 1/8 lower at 112.40. The 10-year spread over bunds narrowed further, to 55 basis points.

high of 118 1/8. The 10-year spread over bunds widened to 119 basis points.

Analysts said any surprises on retail sales, particularly from a figure showing an exceptionally strong rebound from September's 1.9 per cent decline, would hit the long end of the yield curve hardest, with the short end already on guard for another interest rate rise.

ITALIAN BTFS were among the few to post any real gains, with the December future settling 0.13 higher at 112.40. The 10-year spread over bunds narrowed further, to 55 basis points.

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

Nov 18	Date	Coupon	Price	Yield	Chg	Yld	Chg	Yld	Chg	Yld	Chg	Yld
Australia	03/98	6.250	101.5374	5.02	-	-0.04	-0.06	-1.31				
	10/07	10.000	129.4332	5.87	-0.02	-0.05	-0.29	-1.18				
Austria	09/98	7.000	104.1700	4.56	+0.05	-0.10	-0.29	+1.01				
	07/07	5.625	99.7100	5.86	-0.01	-0.02	-0.08	-0.23				
Belgium	04/99	7.000	103.5900	4.25	+0.01	-0.07	-0.27	+0.91				
	03/07	6.250	103.7900	5.71	-0.01	-0.03	-0.09	-0.25				
Canada	03/99	4.000	103.9500	4.13	-0.03	-0.22	-0.11	-0.28				
	09/07	5.250	113.1000	5.45	-	-0.04	-0.30	-0.09				
Denmark	12/99	8.000	102.7000	4.70	-0.02	-0.06	-0.27	+0.53				
	11/07	7.250	102.8900	6.07	-0.09	-0.05	-0.09	-0.69				
Finland	01/99	11.000	107.3400	4.29	-	-0.12	-0.09	-0.42				
	04/06	7.250	106.0950	5.78	-	-0.04	-0.10	-0.85				
France	11/98	8.000	104.8300	4.39	-0.04	-0.08	-0.22	+0.63				
	10/04	8.750	102.3300	5.30	-0.01	-0.05	-0.15	-0.01				
	11/06	7.250	102.8900	5.56	-0.01	-0.01	-0.04	-0.52				
	10/25	8.000	97.7900	6.15	-0.02	-0.09	-0.09	-0.88				
Germany	09/98	3.500	99.8100	4.82	-0.03	-0.11	-0.24	+0.71				
	07/04	6.750	107.7900	5.32	-	-0.04	-0.14	-0.16				
	07/07	6.750	105.1900	5.57	-0.01	-0.05	-0.12	-0.34				
	07/22	6.500	104.1000	6.18	-0.01	-0.01	-0.04	-0.52				
Ireland	04/99	8.250	103.9500	6.49	-0.01	-0.03	-0.12	-0.42				
	09/06	8.000	112.8300	6.06	-0.02	-0.05	-0.03	-0.69				
Italy	05/00	6.000	101.7600	5.29	-0.03	-0.21	-0.16	-1.14				
	05/02	6.250	102.7500	5.55	-0.02	-0.15	-0.13	-1.21				
	07/07	6.750	105.1900	6.03	-0.03	-0.10	-0.18	-1.38				
	07/22	6.500	104.1000	6.18	-0.01	-0.01	-0.04	-0.52				
Japan	09/98	4.000	106.3500	0.26	-0.02	-0.12	-0.12	-0.48				
	12/02	4.000	117.4000	1.24	-0.01	-0.04	-0.09	-0.67				
	09/05	3.000	106.0900	1.76	-0.01	-0.02	-0.07	-0.80				
	03/17	3.500	113.9500	2.56	-0.02	-0.10	-0.30	-0.75				
Netherlands	06/99	5.000	104.8300	4.57	-0.04	-0.07	-0.18	-0.84				
	02/07	6.750	101.2900	5.58	-	-0.04	-0.12	-1.18				
New Zealand	02/00	8.500	98.1498	6.91	-0.07	-0.04	-0.08	-0.06				
	11/06	8.000	106.7397	6.87	-0.07	-	-0.01	-0.89				
Norway	01/99	8.000	105.1400	4.46	-0.03	-0.09	-0.10	-0.38				
	07/07	6.750	106.9500	5.75	-0.02	-0.08	-0.08	-0.78				
Portugal	02/98	8.500	104.4492	4.86	-0.06	-0.17	-0.18	-1.41				
	09/07	6.625	104.8900	5.85	-	-0.09	-0.39	-				
Spain	07/99	7.400	104.1998	4.73	-0.01	-0.19	-0.27	-1.48				
	07/07	7.250	110.1536	5.90	-	-0.10	-0.11	-1.32				
Sweden	01/99	11.000	106.4940	6.10	-0.01	-0.07	-0.09	-0.20				
	06/07	8.000	111.8200	6.35	-0.08	-0.04	-0.01	-0.88				
Switzerland	03/98	4.000	102.4300	5.06	-0.01	-0.01	-0.01	-0.15				
	09/07	4.500	106.9900	5.84	-0.01	-0.04	-0.01	-0.27				
UK	09/98	6.000	96.1641	7.14	-0.02	-0.07	-0.28	-0.38				
	05/04	7.250	107.4380	6.86	-0.01	-0.02	-0.21	-1.11				
	12/07	7.250	104.2813	6.86	-0.04	-0.01	-0.11	-0.89				
	06/21	8.000	118.7695	6.86	-0.05	-0.06	-0.11	-1.13				
US	07/98	6.875	102.2110	5.74	-0.01	-0.01	-0.17	-0.08				
	06/04	7.250	107.4380	6.86	-0.01	-0.02	-0.21	-1.11				
	06/07	6.125	102.0470	6.84	-	-0.09	-0.32	-1.38				
	06/27	6.875	103.8230	6.12	-	-0.07	-0.32	-0.35				
ECU	09/98	5.000	100.3300	4.70	-0.02	-0.05	-0.10	-0.48				
	04/07	5.500	98.2200	5.74	-	-0.08	-0.11	-0.45				

London closing. Prices in US dollars. Source: Interactive Data/PT Information.

10 YEAR BENCHMARK SPREADS

Nov 18	Nov 17	Nov 16	Nov 15	Nov 14	Nov 13	Nov 12	Nov 11	Nov 10	Nov 09	Nov 08	Nov 07	Nov 06	Nov 05	Nov 04	Nov 03	Nov 02	Nov 01	Nov 00	Nov 99	Nov 98	Nov 97	Nov 96	Nov 95	Nov 94	Nov 93	Nov 92	Nov 91	Nov 90	Nov 89	Nov 88	Nov 87	Nov 86	Nov 85	Nov 84	Nov 83	Nov 82	Nov 81	Nov 80	Nov 79	Nov 78	Nov 77	Nov 76	Nov 75	Nov 74	Nov 73	Nov 72	Nov 71	Nov 70	Nov 69	Nov 68	Nov 67	Nov 66	Nov 65	Nov 64	Nov 63	Nov 62	Nov 61	Nov 60	Nov 59	Nov 58	Nov 57	Nov 56	Nov 55	Nov 54	Nov 53	Nov 52	Nov 51	Nov 50	Nov 49	Nov 48	Nov 47	Nov 46	Nov 45	Nov 44	Nov 43	Nov 42	Nov 41	Nov 40	Nov 39	Nov 38	Nov 37	Nov 36	Nov 35	Nov 34	Nov 33	Nov 32	Nov 31	Nov 30	Nov 29	Nov 28	Nov 27	Nov 26	Nov 25	Nov 24	Nov 23	Nov 22	Nov 21	Nov 20	Nov 19	Nov 18	Nov 17	Nov 16	Nov 15	Nov 14	Nov 13	Nov 12	Nov 11	Nov 10	Nov 09	Nov 08
--------	--------	--------	--------	--------	--------	--------	--------	--------	--------	--------	--------	--------	--------	--------	--------	--------	--------	--------	--------	--------	--------	--------	--------	--------	--------	--------	--------	--------	--------	--------	--------	--------	--------	--------	--------	--------	--------	--------	--------	--------	--------	--------	--------	--------	--------	--------	--------	--------	--------	--------	--------	--------	--------	--------	--------	--------	--------	--------	--------	--------	--------	--------	--------	--------	--------	--------	--------	--------	--------	--------	--------	--------	--------	--------	--------	--------	--------	--------	--------	--------	--------	--------	--------	--------	--------	--------	--------	--------	--------	--------	--------	--------	--------	--------	--------	--------	--------	--------	--------	--------	--------	--------	--------	--------	--------	--------	--------	--------	--------	--------

COMMODITIES AND AGRICULTURE

Guinea minister attacks alumina partners

By Kenneth Gooding, Mining Correspondent

A bitter attack on some of the aluminium companies that have dominated the bauxite and alumina industry in Guinea has been made by Fassiné Fofana, minister of natural resources and energy for the west African country.

"For decades Guinea has been in the grip of international industrial partners who have organised their relationship with the country in such a way that they could access cheap resources without

investing on a regular basis and without generating added value locally," suggested Mr Fofana.

"All this was made possible through the control of management and through the use of marketing organisations that could monitor the whole process and preclude Guinea from any direct access to the market."

Guinea is the second largest producer, after Australia, of bauxite, the raw material for alumina, from which aluminium is made.

Mr Fofana was particularly critical of the companies that are his

government's partners in Frigida, Guinea's alumina producer that filed for bankruptcy in April.

These companies - Alcan of Canada, Aluminium Pechiney of France, Hydro Aluminium of Norway, and Noranda Aluminium of Canada - are in dispute with the government and have asked a Geneva tribunal to arbitrate.

The minister said the so-called Frigida consortium - led by Pechiney - controlled production, technical, administration and marketing operations of Frigida and monitored bank financing.

"The collapse of Frigida is a direct consequence of a lack of investment and interest by its controlling shareholders and the squeeze conducted in collaboration with the institution providing financing to Frigida," he insisted.

Pechiney said it did not want to discuss the allegations in detail because of the arbitration case. But it said Frigida had been self-financing, reflecting some contribution by shareholders.

The company said Frigida was run by private investors between 1980 and 1973 and this was a good

example of adding value to Guinea's bauxite. In 1973 a "mixed economy" status was imposed on the company. Private investors lost control of management and technical assistance was their only input. "Not surprisingly, the mixed economy status, with the involvement of administrators as chairmen and other administrative officers, triggered a deterioration of profitability which led to losses."

Pechiney said proposals were made in 1994 to privatise Frigida and increase its output but were not taken up by the authorities.

Mr Fofana said other investors were keen to play a part in Guinea's industry. African Investments International, a specialist consultancy, was advising the government on Frigida. It was still hoped Frigida would expand annual capacity from 640,000 to 1.1m tonnes with a \$300m investment.

Also, SBC Warburg Dillon Read, the investment bank, was advising on the restructuring and privatisation of Guinea's mining sector. Mr Fofana said mining projects involving \$100m were on the drawing board.

Oil drifts as talks continue

MARKETS REPORT

By Gary Mead

The intricate negotiations between Iraq and the UN - which inched forward yesterday with word that both sides might hold talks this week in Geneva - left crude oil markets relatively directionless.

On the New York Mercantile Exchange, December crude sagged 11 cents to touch \$20.15 but traders saw that level as fairly firm; it later recovered to \$20.19 a barrel.

On the International Petroleum Exchange, December Brent was less feeble; in later trading it was at \$19.53 a barrel, 20 cents up from the previous close.

Further fall-out from the recent turmoil on the Asian markets, which is seen as precipitating a slowdown in economic activity in the region, hit copper on the London Metal Exchange.

Copper's three-month price dipped to the lowest point since October 1996, closing at \$1,892 a tonne.

Lead, zinc, nickel, tin and aluminium were also all treated with some disdain - zinc closed at a 2½-year low of \$565, down \$13, while nickel ended at \$8,120, down \$125.

Gold, meanwhile, remained fragile, the afternoon London "fix" just 45 cents an ounce higher than in the morning, at \$304.10.

Soft commodities were handed heavily on the London International Financial Futures Exchange: March cocoa closed at \$1,029 a tonne, down £15, with continued strong harvest reports from Ivory Coast dogging the market. The January contract for coffee ended \$20 lower at \$1,625 a tonne.

Platinum in short supply

By Kenneth Gooding

Platinum demand will substantially outpace supply this year for the first time since 1988 and there will be a further supply deficit in 1998, according to Johnson Matthey, the world's biggest platinum marketing group.

Tightness of supply boosted platinum prices from less than \$350 an ounce in February to a peak of \$485 in June. JM suggests in its interim market report that prices will range from \$400 to \$450 an ounce in the next six months. Platinum was \$391 in London yesterday.

JM forecasts that supply will fall from 4.98m ounces last year to 4.77m ounces in 1997 while demand will rise from 4.96m ounces to 5.09m ounces.

Supply problems originated when Russia failed to export any platinum in the first half of this year because of bureaucratic hold-ups and political infighting.

Consequently, Russia's exports are predicted to fall from 1.22m ounces to 700,000 ounces this year. JM expects no increase in Russia's exports next year because the country's platinum stocks are virtually gone, and estimates that Russia's annual production is only

600,000 ounces. "There is no prospect of higher shipments from South Africa (the biggest producer) where producers are operating close to capacity," says Alison Cowley, author of the review.

JM suggests demand for platinum for jewellery this year will rise from 1.99m ounces to 2.07m ounces while its use in car catalysts - for removing pollutants from engine exhaust fumes - will slip from 1.88m ounces to 1.83m ounces.

Platinum jewellery demand has been lifted this year by a 50 per cent rise in China (including Hong Kong), to 300,000 ounces. China has overtaken Japan as the biggest platinum jewellery market.

In its assessment of prospects for other platinum group metals, JM suggests palladium prices will remain above \$190 an ounce but that Russia, the biggest producer, will attempt to contain any rallies above \$230.

Rhodium, also used in car catalysts, is forecast to be in deficit this year, with supply at 440,000 ounces compared with demand of 449,000 ounces.

Platinum 1997 Interim Review, from Johnson Matthey, 75 Hatton Garden, London EC1N 3JP, UK. Free.

Aluminium groups show confidence in demand

By Nikkî Tait in Chicago and Kenneth Gooding in London

The aluminium industry is sending clear signals that it expects strong demand both in the long term and the immediate future.

Among the indications yesterday was the signing of a memorandum of understanding between Norsk Hydro of Norway and Qatar Petroleum, the state-owned organisation, for a US\$1bn aluminium smelter that will be the biggest in the Gulf.

Norsk Hydro will have 60 per cent of the project and raise the finance. The smelter is expected to start up in 2002 at an annual rate of 200,000 tonnes and be expanded eventually to 400,000 tonnes.

Meanwhile, Alcoa World Alumina and Chemicals, the joint venture between Alcoa in the US and Australia's WMC, is to go ahead with a \$188m expansion of the Wageningen alumina refinery in Western Australia - the second time in a month the company has moved to add to its refining capacity.

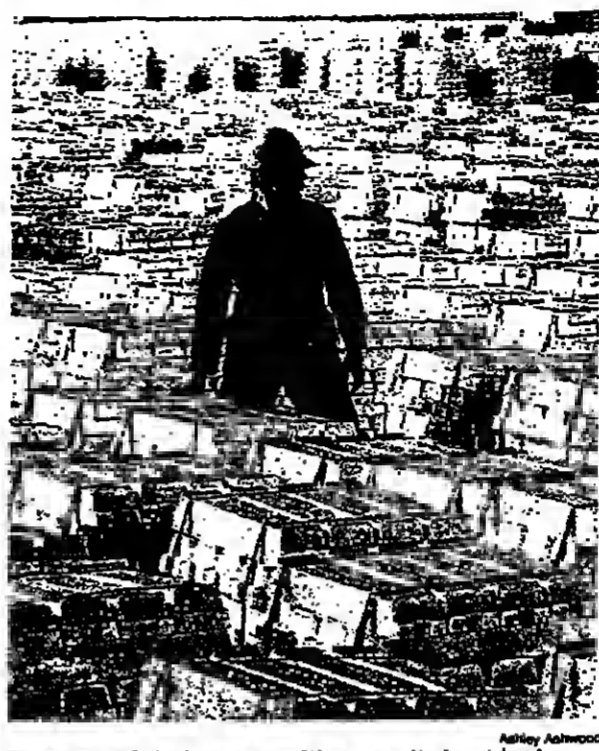
The expansion will add around 440,000 tonnes a year to Wageningen's capacity, to 2.19m tonnes a year by mid-1999. It said the expansion was the "first stage" of a programme to lift capacity to 3.3m tonnes a year.

The move comes amid a wave of expansion moves in Australia's bauxite and alumina sector. Reynolds Metals of the US recently announced plans to spend

\$600m to raise Worsley Alumina's annual alumina capacity by 1.2m tonnes to 3.1m tonnes a year. Alcan Aluminium is also investing \$100m in a new bauxite mine in North Queensland.

Reynolds is to restart production at its Trondale smelter in Oregon, which was shut down at the end of 1991. But only 25,000 tonnes of capacity will be used at first, beginning in March. This will compensate Reynolds for a loss of output at Volta Aluminium in Ghana because of drought.

Pechiney of France is to restart the 10 per cent of capacity shut down in 1994 at its 125,000 tonnes a year Saint-Jean-de-Meurville aluminium smelter in the Alps.



From the Gulf to Oregon, smelting capacity is set to rise

Cargill raises malt production capacity

By Nikkî Tait

Terms were not disclosed but Cargill said the deal would lift its malt production capacity to almost 1.5m tonnes a year, through the addition of SMC's 415,000 tonnes. This will make Cargill one of the world's largest malting businesses.

The Minnesota-based group already has plants in Belgium, France, Germany,

the Netherlands, Spain, and the US. It is due to open a facility in Argentina in 1998.

The SMC deal will add a production facility in Sheboygan, and give Cargill a 51 per cent interest in Prairie Malt in Saskatchewan, Canada. It will also take over SMC's 45.3 per cent interest in CUC Malt-Nanjing, a joint venture close to Shanghai,

this month that their respective boards had approved the merger plan in principle, said that full members of the richer CSCE would get a payout of \$100,000, while full members of NYCE would receive \$25,000 each.

The merged organisation has "tentatively designated" itself the New York Board of Trade.

Members of the New York Cotton Exchange, which handles both agricultural and financial contracts, and the neighbouring Coffee, Sugar & Cocoa Exchange, will share in a payout of about \$50m if they vote to merge their futures trading organisations.

The two organisations, which announced earlier

this month that their respective boards had approved the merger plan in principle, said that full members of the richer CSCE would get a payout of \$100,000, while full members of NYCE would receive \$25,000 each.

The merged organisation has "tentatively designated" itself the New York Board of Trade.

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE

(Prices from Amalgamated Metal Trading)

ALUMINIUM, 99.7 PURITY (\$ per tonne)

	Settle	Day's	High	Low	Vol	Open
Close	1605.5-06.5	1606-37				
Previous	1606-37	1604-45				
High/Low	1609/1638					
AM Official	1616-16.5	1640-51				
Kerb close	1616-16.5	1616-16.5				
Open int.	n/a					
Total daily turnover	n/a					

ALUMINIUM ALLOY (\$ per tonne)

	Settle	Day's	High	Low	Vol	Open
Close	1465-75	1475-85				
Previous	1462-87	1462-85				
High/Low	1465/1483					
AM Official	1475-80	1483-84				
Kerb close	1475-80	1475-85				
Open int.	n/a					
Total daily turnover	n/a					

LEAD (\$ per tonne)

	Settle	Day's	High	Low	Vol	Open
Close	548.5-50.5	557-8				
Previous	552-84	557-76				
High/Low	553/561					
AM Official	561-62	578-79				
Kerb close	561-62	565-6				
Open int.	n/a					
Total daily turnover	n/a					

NICKEL (\$ per tonne)

	Settle	Day's	High	Low	Vol	Open
Close	6030-40	6125-30				
Previous	6135-45	6225-30				
High/Low	6210/6110					
AM Official	6080-85	6105-70				
Kerb close	6105-40	6135-40				
Open int.	n/a					
Total daily turnover	n/a					

TIN (\$ per tonne)

	Settle	Day's	High	Low	Vol	Open
Close	5680-85	5590-85				
Previous	5615-85	5615-85				
High/Low	5610/5690					
AM Official	5680-85	5570-75				
Kerb close	5570-75	5575-80				
Open int.	n/a					
Total daily turnover	n/a					

ZINC, special high grade (\$ per tonne)

	Settle	Day's	High	Low	Vol	Open
Close	1135.5-36.5	1183-84				
Previous	1138-40	1188-87				
High/Low	1174/1151					
AM Official	1141-41.5	1168-86.5				
Kerb close	1168-86.5	1160-81				
Open int.	n/a					
Total daily turnover	n/a					

COPPER, grade A (\$ per tonne)

	Settle	Day's	High	Low	Vol	Open
Close	1879.5-90.5	1909-07				
Previous	1945-46	1971-72				
High/Low	1905-6	1988/1980				
AM Official	1905-6	1980-30.5				
Kerb close	1987-35	1987-35				
Open int.	n/a					
Total daily turnover	n/a					

LME ALUMINUM OFFER \$/tonne 1,000

	Settle	Day's	High	Low	Vol	Open
Close	1879.5-90.5	1909-07				
Previous	1945-46	1971-72				
High/Low	1905-6	1988/1980				
AM Official	1905-6	1980-30.5				
Kerb close	1987-35	1987-35				
Open int.	n/a					
Total daily turnover	n/a					

LME CLOSING \$/tonne 1,000

	Settle	Day's	High	Low	Vol	Open
Close	1879.5-90.5	1909-07				
Previous	1945-46	1971-72				
High/Low	1905-6	1988/1980				
AM Official	1905-6	1980-30.5				
Kerb close	1987-35	1987-35				
Open int.	n/a					
Total daily turnover	n/a					

LME CLOSING \$/tonne 1,000

	Settle	Day's	High	Low	Vol	Open
Close	1879.5-90.5	1909-07				
Previous	1945-46	1971-72				
High/Low	1905-6	1988/1980				
AM Official	1905-6	1980-30.5				
Kerb close	1987-35	1987-35				
Open int.	n/a					
Total daily turnover	n/a					

LME CLOSING \$/tonne 1,000

	Settle	Day's	High	Low	Vol	Open
Close	1879.5-90.5	1909-07				
Previous	1945-46	1971-72				
High/Low	1905-6	1988/1980				
AM Official	1905-6	1980-30.5				
Kerb close	1987-35	1987-35				
Open int.	n/a					
Total daily turnover	n/a					

LME CLOSING \$/tonne 1,000

	Settle	Day's	High	Low	Vol	Open
Close	1879.5-90.5	1909-07				
Previous	1945-46	1971-72				
High/Low	1905-6	1988/1980				
AM Official	1905-6	1980-30.5				
Kerb close	1987-35	1987-35				
Open int.	n/a					
Total daily turnover	n/a					

LME CLOSING \$/tonne 1,000

	Settle	Day's	High	Low	Vol	Open
Close	1879.5-90.5	1909-07				
Previous	1945-46	1971-72				
High/Low	1905-6	1988/1980				
AM Official	1905-6	1980-30.5				
Kerb close	1987-35	1987-35				
Open int.	n/a					
Total daily turnover	n/a					

LME CLOSING \$/tonne 1,000

	Settle	Day's	High	Low	Vol	Open
Close	1879.5-90.5	1909-07				
Previous	1945-46	1971-72				
High/Low	1905-6	1988/1980				
AM Official	1905-6	1980-30.5				
Kerb close	1987-35	1987-35				
Open int.	n/a					
Total daily turnover	n/a					

LME CLOSING \$/tonne 1,000

	Settle	Day's	High	Low	Vol	Open
Close	1879.5-90.5	1909-07				
Previous	1945-46	1971-72				
High/Low	1905-6	1988/1980				
AM Official	1905-6	1980-30.5				
Kerb close	1987-35	1987-35				
Open int.	n/a					
Total daily turnover	n/a					

FT MANAGED FUNDS SERVICE

صِيْرْنَا مِنَ الْاَهْلِ

FT MANAGED FUNDS SERVICE


FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (444 177) 873 4378 for more details.

Offshore Insurances and Other Funds

Professional Investment Consultants				Austrian Funds				DWS Deutsche Ges. F. Wertpapiere				Global Asset Management - Cont.				INVESTCO Asset Management				Magnum Funds				Orion Capital Advisors Ltd				Selective Assets Series Fund Limited			
Fund	Price	Change	YTD	Fund	Price	Change	YTD	Fund	Price	Change	YTD	Fund	Price	Change	YTD	Fund	Price	Change	YTD	Fund	Price	Change	YTD	Fund	Price	Change	YTD	Fund	Price	Change	YTD
Capital Fund	1.00	0.00	0.00	Capital Fund	1.00	0.00	0.00	Capital Fund	1.00	0.00	0.00	Capital Fund	1.00	0.00	0.00	Capital Fund	1.00	0.00	0.00	Capital Fund	1.00	0.00	0.00	Capital Fund	1.00	0.00	0.00	Capital Fund	1.00	0.00	0.00

Audemars Piguet

THE FINEST WATCH IN THE WORLD WILL ONLY BE WORN BY EXCEPTIONAL PEOPLE.



Royal Oak Offshore

For information and catalogue, please write to:
Audemars Piguet & Co S.A., 15 Avenue de la Suisse,
CH-1900 Sion, Switzerland.
Tel. 41-271 907 14 00, fax 41-271 907 14 01

Internet: <http://www.audemarspiguet.com> e-mail: info@audemarspiguet.com

OTHER OFFSHORE FUNDS

ATSP Management Ltd				Key Asset Management Inc				Key Asset Management Inc				Key Asset Management Inc				Key Asset Management Inc				Key Asset Management Inc				Key Asset Management Inc				Key Asset Management Inc			
Fund	Price	Change	YTD	Fund	Price	Change	YTD	Fund	Price	Change	YTD	Fund	Price	Change	YTD	Fund	Price	Change	YTD	Fund	Price	Change	YTD	Fund	Price	Change	YTD	Fund	Price	Change	YTD
Capital Fund	1.00	0.00	0.00	Capital Fund	1.00	0.00	0.00	Capital Fund	1.00	0.00	0.00	Capital Fund	1.00	0.00	0.00	Capital Fund	1.00	0.00	0.00	Capital Fund	1.00	0.00	0.00	Capital Fund	1.00	0.00	0.00	Capital Fund	1.00	0.00	0.00

MANAGED FUNDS NOTES

Please refer to the prospectus for full details of the fund's investment objectives, risks, charges and expenses. The prospectus is available on request from the fund manager.

MANAGED FUNDS NOTES

Please refer to the prospectus for full details of the fund's investment objectives, risks, charges and expenses. The prospectus is available on request from the fund manager.

CHEMICALS - Cont.**ENGINEERING - Cost****EXTRACTIVE INDUSTRIES - Cont**

INVESTMENT TRUSTS

MANAGEMENT TRUSTS - Cont.

BANKS, RETAIL

DISTRIBUTORS

BREWERIES, PUBS & REST

BUILDING & CONSTRUCTION

DIVERSIFIED INDUSTRIALS

ELECTRICITY

ELECTRONIC & ELECTRICAL EQPT

BUILDING MATS. & MERCHANTS

CHEMICALS

ENGINEERING

ENGINEERING VEHICLES

HEALTH CARE - Cont

HOUSEHOLD GOODS

INSURANCE

**Siebe compress air
in the world's refineries,
factories and castles.**

From big business to bouncy
castles, we make air work
efficiently in more places than we
can compress into this space.



We are at work in almost every corner of the world. And we're always in the most important place of all. The lead.

SIEBE THE ENGINEER. HERE, THERE AND EVERYWHERE
Siebe plc, Saxon House, 2-4 Victoria Street, Windsor, Berkshire SL4 1EN, England. Tel. 01753 855411

EXTRACTIVE INDUSTRIES

HOUSEHOLD GOODS

INSURANCE

INV TRUSTS SPLIT CAPITAL

صبرنا من الراحل

LONDON STOCK EXCHANGE

Footsie's 156-point rally grinds to a halt

MARKET REPORT

By Steve Thompson,
UK Stock Market Editor

An uneasy calm descended on London's equity market yesterday, with the 3.3 per cent rally in share prices over the previous two sessions, induced by a good rally across far eastern markets, giving way to a much more cautious attitude.

Always on the back foot, the FTSE 100 index finished a relatively quiet session down 21.6 at 4,845.4, well above the day's low, but never threatening to regain its recent upward momentum.

The market's other indices

were similarly weak, with the downside emphasis again on the smaller issues. The FTSE Small-Cap index, which has been left behind somewhat in recent days, lost 8.1 to 2,280.0.

The FTSE 250 index dipped only 2.4 to 4,623.4, sustained, according to dealers, by a raft of positive trading results from many of its constituents, notably Great Portland, the property group, De la Rue, the paper and printing company, and Perpetual, the fund management group.

A double digit dividend increase and a proposed buy-back of 10 per cent of its own shares propelled Northern Ireland Electricity shares, another of the

big winners in the 250 index. Of the Footsie constituents reporting yesterday, BOC and Vodafone were in line with expectations, but the latter took a hit from the introduction of a more aggressive stance on mobile phone tariffs. The front line index was also burdened by a steep fall in Enterprise Oil, after a disappointing update from the company.

Economic news from both sides of the Atlantic was seen by strategists as market-positive. On the domestic front, the public sector borrowing repayment for last month came in at an encouraging 55.7bn, while in the US the October inflation monthly rise of

0.2 per cent was well received. Wall Street kicked off on a firm note, with the Dow Jones Industrial Average posting a 20-points plus gain within five minutes of the opening bell. It maintained its position until London closed for the day, when the Dow slipped into negative territory.

London was locked in a relatively narrow trading range all day, retreating to a low of 4,827.0 in mid-morning before stabilising later in the session, despite the uneven trend in the US.

Turnover was a light 571.4m shares, spread evenly between Footsie and other stocks.

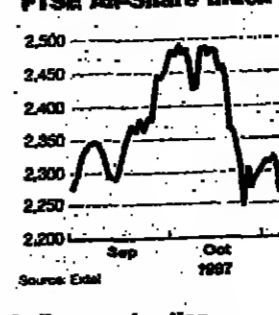
Traders said London was drifting in the run-up to Christmas,

which could well see a general market consolidation and might prompt the big institutions to drive up prices of the poorer performers, such as Halifax and the Woolwich.

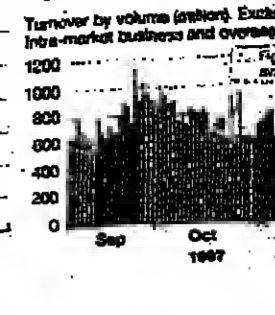
Goldman Sachs, the investment bank, reduced its 12-month Footsie forecast from 5,500 to 5,250, although it expected UK equities to outperform Europe.

It cited five reasons for its stance: attractive relative valuations; its view that strong economic growth and high interest rates are not necessarily negative for equities; the prospect of European currency depreciation; and the UK's defensive qualities.

FTSE All-Share Index



Equity shares traded



Indices and ratios

FTSE 100	4845.4	-21.6
FTSE 250	4623.4	-2.4
FTSE Small-Cap	2280.0	-8.1
FTSE All-Share	2290.9	-8.4
FTSE All-Share yield	3.38	3.37

Best performing sectors

1 Oil Exploration	+0.8
2 Support Services	+0.6
3 Diversified Inds	+0.6
4 Water	+0.5
5 Electricity	+0.3

Worst performing sectors

1 Oil Exploration	-2.8
2 Extractive Inds	-1.6
3 Telecom	-1.5
4 Telecommunications	-1.5
5 Transport	-1.1

FUTURES AND OPTIONS

FTSE 100 INDEX FUTURES (LFFE) £25 per full index point (APT)

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	4880.0	4871.0	-29.0	4893.0	4849.0	7576	63951
Mar	4950.0	4915.5	-26.5	4960.0	4914.5	140	7802

FTSE 250 INDEX FUTURES (LFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	4640.0	4615.0	-25.0	4650.0	4610.0	0	9244

FTSE 100 INDEX OPTION (LFFE) £4841 £10 per full index point

	4850	4700	4750	4800	4850	4900	4950	5000
C	100	100	100	100	100	100	100	100
P	100	100	100	100	100	100	100	100
Call	100	100	100	100	100	100	100	100
Put	100	100	100	100	100	100	100	100

FTSE 250 INDEX OPTION (LFFE) £10 per full index point

	4650	4700	4750	4800	4850	4900	4950	5000
C	100	100	100	100	100	100	100	100
P	100	100	100	100	100	100	100	100
Call	100	100	100	100	100	100	100	100
Put	100	100	100	100	100	100	100	100

Call: 6.000 Puts: 10.000 Underlying index value: Premiums shown are based on settlement prices. 1 Long short entry makes.

TRADING VOLUME

Major Stocks Yesterday

Vol. Closing Day's price change

	Vol.	Closing	Day's price change
FTSE 100	571.4	4845.4	-21.6
FTSE 250	100.0	4623.4	-2.4
FTSE Small-Cap	100.0	2280.0	-8.1

FTSE 100 INDEX FUTURES (LFFE) £25 per full index point

FTSE 250 INDEX FUTURES (LFFE) £10 per full index point

FTSE 100 INDEX OPTION (LFFE) £4841 £10 per full index point

FTSE 250 INDEX OPTION (LFFE) £10 per full index point

FTSE 100 INDEX OPTION (LFFE) £4841 £10 per full index point

FTSE 250 INDEX OPTION (LFFE) £10 per full index point

FTSE 100 INDEX OPTION (LFFE) £4841 £10 per full index point

FTSE 250 INDEX OPTION (LFFE) £10 per full index point

FTSE 100 INDEX OPTION (LFFE) £4841 £10 per full index point

FTSE 250 INDEX OPTION (LFFE) £10 per full index point

FTSE 100 INDEX OPTION (LFFE) £4841 £10 per full index point

FTSE 250 INDEX OPTION (LFFE) £10 per full index point

FTSE 100 INDEX OPTION (LFFE) £4841 £10 per full index point

FTSE 250 INDEX OPTION (LFFE) £10 per full index point

FTSE 100 INDEX OPTION (LFFE) £4841 £10 per full index point

FTSE 250 INDEX OPTION (LFFE) £10 per full index point

FTSE 100 INDEX OPTION (LFFE) £4841 £10 per full index point

FTSE 250 INDEX OPTION (LFFE) £10 per full index point

FTSE 100 INDEX OPTION (LFFE) £4841 £10 per full index point

FTSE 250 INDEX OPTION (LFFE) £10 per full index point

FTSE 100 INDEX OPTION (LFFE) £4841 £10 per full index point

FTSE 250 INDEX OPTION (LFFE) £10 per full index point

FTSE 100 INDEX OPTION (LFFE) £4841 £10 per full index point

FTSE 250 INDEX OPTION (LFFE) £10 per full index point

FTSE 100 INDEX OPTION (LFFE) £4841 £10 per full index point

FTSE 250 INDEX OPTION (LFFE) £10 per full index point

FTSE 100 INDEX OPTION (LFFE) £4841 £10 per full index point

FTSE 250 INDEX OPTION (LFFE) £10 per full index point

FTSE 100 INDEX OPTION (LFFE) £4841 £10 per full index point

FTSE 250 INDEX OPTION (LFFE) £10 per full index point

FTSE 100 INDEX OPTION (LFFE) £4841 £10 per full index point

FTSE 250 INDEX OPTION (LFFE) £10 per full index point

FTSE 100 INDEX OPTION (LFFE) £4841 £10 per full index point

FTSE 250 INDEX OPTION (LFFE) £10 per full index point

FTSE 100 INDEX OPTION (LFFE) £4841 £10 per full index point

FTSE 250 INDEX OPTION (LFFE) £10 per full index point

FTSE 100 INDEX OPTION (LFFE) £4841 £10 per full index point

FTSE 250 INDEX OPTION (LFFE) £10 per full index point

FTSE 100 INDEX OPTION (LFFE) £4841 £10 per full index point

FTSE 250 INDEX OPTION (LFFE) £10 per full index point

FTSE 100 INDEX OPTION (LFFE) £4841 £10 per full index point

FTSE 250 INDEX OPTION (LFFE) £10 per full index point

FTSE 100 INDEX OPTION (LFFE) £4841 £10 per full index point

FTSE 250 INDEX OPTION (LFFE) £10 per full index point

FTSE 100 INDEX OPTION (LFFE) £4841 £10 per full index point

FTSE 250 INDEX OPTION (LFFE) £10 per full index point

FTSE 100 INDEX OPTION (LFFE) £4841 £10 per full index point

FTSE 250 INDEX OPTION (LFFE) £10 per full index point

FTSE 100 INDEX OPTION (LFFE) £4841 £10 per full index point

FTSE 250 INDEX OPTION (LFFE) £10 per full index point

FTSE 100 INDEX OPTION (LFFE) £4841 £10 per full index point

FTSE 250 INDEX OPTION (LFFE) £10 per full index point

FTSE 100 INDEX OPTION (LFFE) £4841 £10 per full index point

FTSE 250 INDEX OPTION (LFFE) £10 per full index point

FTSE 100 INDEX OPTION (LFFE) £4841 £10 per full index point

FTSE 250 INDEX OPTION (LFFE) £10 per full index point

FTSE 100 INDEX OPTION (LFFE) £4841 £10 per full index point

FTSE 250 INDEX OPTION (LFFE) £10 per full index point

FTSE 100 INDEX OPTION (LFFE) £4841 £10 per full index point

FTSE 250 INDEX OPTION (LFFE) £10 per full index point

FTSE 100 INDEX OPTION (LFFE) £4841 £10 per full index point

FTSE 250 INDEX OPTION (LFFE) £10 per full index point

FTSE 100 INDEX OPTION (LFFE) £4841 £10 per full index point

FTSE 250 INDEX OPTION (LFFE) £10 per full index point

FTSE 100 INDEX OPTION (LFFE) £4841 £10 per full index point

FTSE 250 INDEX OPTION (LFFE) £10 per full index point

FTSE 100 INDEX OPTION (LFFE) £4841 £10 per full index point

FTSE 250 INDEX OPTION (LFFE) £10 per full index point

FTSE 100 INDEX OPTION (LFFE) £4841 £10 per full index point

FTSE 250 INDEX OPTION (LFFE) £10 per full index point

FTSE 100 INDEX OPTION (LFFE) £4841 £10 per full index point

FTSE 250 INDEX OPTION (LFFE) £10 per full index point

FTSE 100 INDEX OPTION (LFFE) £4841 £10 per full index point

FTSE 250 INDEX OPTION (LFFE) £10 per full index point

FTSE 100 INDEX OPTION (LFFE) £4841 £10 per full index point

FTSE 250 INDEX OPTION (LFFE) £10 per full index point

FTSE 100 INDEX OPTION (LFFE) £4841 £10 per full index point

FTSE 250 INDEX OPTION (LFFE) £10 per full index point

FTSE 100 INDEX OPTION (LFFE) £4841 £10 per full index point

FTSE 250 INDEX OPTION (LFFE) £10 per full index point

FTSE 100 INDEX OPTION (LFFE) £4841 £10 per full index point

FTSE 250 INDEX OPTION (LFFE) £10 per full index point

Enterprise hit by report

A surprise statement from Enterprise Oil over its production output sent the share price spinning downwards yesterday.

The announcement that the company's production target was being slashed by 45,000 barrels a day sent the shares down almost 8 per cent at worst. The stock ended the day 43 or 6.6 per cent off at 609p, easily the worst performance in the Footsie. And turnover of 6.5m shares was one of the highest on record.

In terms of net asset value, and profit, the slide was generally reckoned to be overdone. But the extra 20p or so represented concern over the company's general creditworthiness.

One analyst said: "Only nine months ago Pierre Jungels was telling everyone how fantastic everything was and now all their projects are slipping back. The problem is that Enterprise is undertaking downgrades against a backdrop of hype."

The statement only hit the market late yesterday and brokers were hasty adjusting their forecasts downwards. Dealers said ABN Amro Hoare Govett had reduced its net asset valuation by 10 to 44p.

However, Neil Perry at HSBC James Capel said the sell-off was an over-reaction.

"It looks as though Enterprise will replace 180 per cent of production in 1997 and the company is still in a very active expansion phase." The harsh market treatment meted out to Enterprise came a pall over rival Lasso, marked down 6 to 275p.

The race for the exit door by senior executives at BSKyB appeared to be building yesterday as the market pondered news that the finance director is quitting.

In a statement after Monday's close of trading, BSKyB said group finance director Richard Brooke will resign with effect from the end of the month. The move comes after the earlier departure of chief executive Sam Chisholm and David Chance, deputy managing director, to consultancy roles. It means all three of the senior executives who led the company in its early years of development have left. The shares, which were up at 683p earlier this year, fell 12 to 412p.

Banknote and cash handling systems producer De La Rue rose 12p to 410p on stronger-than-expected first-half earnings figures.

The company reported a 6.6 per drop in first-half profit to 556.3m but the figure was greeted with relief by analysts, who were expecting 548m at best.

BOC Group moved up 12 to 977p in response to preliminary results slightly ahead of market expectations. Some analysts were reducing forecasts for the year to September 1998 because of the impact of the strong pound but the 1997 figure of 544.2m was marginally higher than last year's. Favourable conditions in industrial gases counteracted currency negatives.

News that the government has denied British Aerospace £120m in public funds for its participation in two new Airbus aircraft cast a shadow over the stock.

The shares fell 5 to £15.45. Dealers said bargain-hunting late in the day had prevented a further decline in the stock. Salomon Brothers rates the shares a "buy". In a recently published 40-page note, the US investment bank said: "Investors and analysts have been very focused on how BAE can best pursue the European defence industry consolidation process. We believe this misses the point that BAE's investment upside flows from the exploitation of its cash." It added: "The European integration process may provide earnings enhancing ways of spending some of that cash, but there are other investing back its own shares which could be equally or even more rewarding."

FT 30 INDEX

	Nov 18	Nov 17	Nov 16	Nov 15	Nov 14	Nov 13	Nov 12	Nov 11	Nov 10	Nov 9	Nov 8	Nov 7	Nov 6	Nov 5	Nov 4	Nov 3	Nov 2	Nov 1	Nov 0	Nov -1	Nov -2	Nov -3	Nov -4	Nov -5	Nov -6	Nov -7	Nov -8	Nov -9	Nov -10	Nov -11	Nov -12	Nov -13	Nov -14	Nov -15	Nov -16	Nov -17	Nov -18	Nov -19	Nov -20	Nov -21	Nov -22	Nov -23	Nov -24	Nov -25	Nov -26	Nov -27	Nov -28	Nov -29	Nov -30	Nov -31	Nov -32	Nov -33	Nov -34	Nov -35	Nov -36	Nov -37	Nov -38	Nov -39	Nov -40	Nov -41	Nov -42	Nov -43	Nov -44	Nov -45	Nov -46	Nov -47	Nov -48	Nov -49	Nov -50	Nov -51	Nov -52	Nov -53	Nov -54	Nov -55	Nov -56	Nov -57	Nov -58	Nov -59	Nov -60	Nov -61	Nov -62	Nov -63	Nov -64	Nov -65	Nov -66	Nov -67	Nov -68	Nov -69	Nov -70	Nov -71	Nov -72	Nov -73	Nov -74	Nov -75	Nov -76	Nov -77	Nov -78	Nov -79	Nov -80	Nov -81	Nov -82	Nov -83	Nov -84	Nov -85	Nov -86	Nov -87	Nov -88	Nov -89	Nov -90	Nov -91	Nov -92	Nov -93	Nov -94	Nov -95	Nov -96	Nov -97	Nov -98	Nov -99	Nov -100	Nov -101	Nov -102	Nov -103	Nov -104	Nov -105	Nov -106	Nov -107	Nov -108	Nov -109	Nov -110	Nov -111	Nov -112	Nov -113	Nov -114	Nov -115	Nov -116	Nov -117	Nov -118	Nov -119	Nov -120	Nov -121	Nov -122	Nov -123	Nov -124	Nov -125	Nov -126	Nov -127	Nov -128	Nov -129	Nov -130	Nov -131	Nov -132	Nov -133	Nov -134	Nov -135	Nov -136	Nov -137	Nov -138	Nov -139	Nov -140	Nov -141	Nov -142	Nov -143	Nov -144	Nov -145	Nov -146	Nov -147	Nov -148	Nov -149	Nov -150	Nov -151	Nov -152	Nov -153	Nov -154	Nov -155	Nov -156	Nov -157	Nov -158	Nov -159	Nov -160	Nov -161	Nov -162	Nov -163	Nov -164	Nov -165	Nov -166	Nov -167	Nov -168	Nov -169	Nov -170	Nov -171	Nov -172	Nov -173	Nov -174	Nov -175	Nov -176	Nov -177	Nov -178	Nov -179	Nov -180	Nov -181	Nov -182	Nov -183	Nov -184	Nov -185	Nov -186	Nov -187	Nov -188	Nov -189	Nov -190	Nov -191	Nov -192	Nov -193
--	--------	--------	--------	--------	--------	--------	--------	--------	--------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	--------	--------	--------	--------	--------	--------	--------	--------	--------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	---------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------

Highs & Lows shown-on a 52 week basis

WORLD STOCK MARKETS

[illegible]

**Rockwell's Science Centre
works with more than
200 universities,
government laboratories
and companies worldwide
to deliver technologies
faster and cheaper.**

Rockwell

<http://www.rockwell.com>

FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by FTSE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The indices are compiled by FTSE International and Standard & Poor's in conjunction with the Faculty of Actuaries and the Institute of Actuaries. NatWest Securities Ltd. was a co-founder of the indices.

REGIONAL AND NATIONAL MARKETS showing the percent change in the price of stock	MONDAY NOVEMBER 14 1997										TUESDAY NOVEMBER 18 1997										DOLLAR INDEX																																																																																																																																																																																																																																																																																																																																																																															
	US Dollar Index	Day's Change %	Point Starting Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	US Dollar Index	Day's Change %	Point Starting Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	US Dollar Index	Day's Change %	Point Starting Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	US Dollar Index	Day's Change %	Point Starting Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	US Dollar Index	Day's Change %	Point Starting Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	US Dollar Index	Day's Change %	Point Starting Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	US Dollar Index	Day's Change %	Point Starting Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	US Dollar Index	Day's Change %	Point Starting Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	US Dollar Index	Day's Change %	Point Starting Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	US Dollar Index	Day's Change %	Point Starting Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	US Dollar Index	Day's Change %	Point Starting Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	US Dollar Index	Day's Change %	Point Starting Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	US Dollar Index	Day's Change %	Point Starting Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	US Dollar Index	Day's Change %	Point Starting Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	US Dollar Index	Day's Change %	Point Starting Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	US Dollar Index	Day's Change %	Point Starting Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	US Dollar Index	Day's Change %	Point Starting Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	US Dollar Index	Day's Change %	Point Starting Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	US Dollar Index	Day's Change %	Point Starting Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	US Dollar Index	Day's Change %	Point Starting Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	US Dollar Index	Day's Change %	Point Starting Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	US Dollar Index	Day's Change %	Point Starting Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	US Dollar Index	Day's Change %	Point Starting Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	US Dollar Index	Day's Change %	Point Starting Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	US Dollar Index	Day's Change %	Point Starting Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	US Dollar Index	Day's Change %	Point Starting Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	US Dollar Index	Day's Change %	Point Starting Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	US Dollar Index	Day's Change %	Point Starting Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	US Dollar Index	Day's Change %	Point Starting Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	US Dollar Index	Day's Change %	Point Starting Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	US Dollar Index	Day's Change %	Point Starting Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	US Dollar Index	Day's Change %	Point Starting Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	US Dollar Index	Day's Change %	Point Starting Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	US Dollar Index	Day's Change %	Point Starting Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	US Dollar Index	Day's Change %	Point Starting Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	US Dollar Index	Day's Change %	Point Starting Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	US Dollar Index	Day's Change %	Point Starting Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	US Dollar Index	Day's Change %	Point Starting Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	US Dollar Index	Day's Change %	Point Starting Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	US Dollar Index	Day's Change %	Point Starting Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	US Dollar Index	Day's Change %	Point Starting Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	US Dollar Index	Day's Change %	Point Starting Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	US Dollar Index	Day's Change %	Point Starting Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	US Dollar Index	Day's Change %	Point Starting Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	US Dollar Index	Day's Change %	Point Starting Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	US Dollar Index	Day's Change %	Point Starting Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	US Dollar Index	Day's Change %	Point Starting Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	US Dollar Index	Day's Change %	Point Starting Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	US Dollar Index	Day's Change %	Point Starting Index	Yen Index

Emerging markets: IFC investable indices

[illegible]

NASDAQ

FINANCIAL TIMES
No FT, no comment.

صكنا من الراحل

Donnerstag 1. Juni 1995 JAPAN

WORLD MARKETS AT A GLANCE

Country	Index	Nov 16	Nov 17	Nov 1987 High	1987 Low	% Yld	% PE	Country	Index	Nov 16	Nov 17	Nov 1987 High	1987 Low	% Yld	% PE	
Argentina	General	19472.30	19576.10	19612.28	20691.55	2010	16.37	Chad								
Australia	All Ordinaries	2468.3	2467.7	2475.1	2378.20	2450	17.9	Chad								
	All Mining	581.5	584.3	612.1	560.10	542		Chad								
Domestic bond yields in Tokyo, which accelerated in pre-bidding on treasury offerings, slipping 5 per cent.								Chad								
	3-month	436.18	435.02	434.70	474.62	210	2.05	Chad								
	12-month	1222.45	1222.13	1222.45	1406.00	210	13.22	Chad								
Advances in leading shares, including Pfizer and VA Steel, helped AEX index climb higher.								Chad								
Belgium	Bel 20	2284.71	2287.97	2346.42	2623.90	260	15.8	Chad								
Dutch operations continued but lower Royal Dutch dividend offset any advance of its distribution chain, BSE.								Chad								
	10-year	872.00	865.00	872.00	1361.00	210	0.53	Chad								
\$4.50s slipped less after Moody's gave the pair a raise.								Chad								
	100-120	407.65	408.04	408.04	418.00	210	2.32	Chad								
	120-140	408.30	408.30	408.30	418.00	210	2.32	Chad								
	140-160	408.30	408.30	408.30	418.00	210	2.32	Chad								
	160-180	408.30	408.30	408.30	418.00	210	2.32	Chad								
	180-200	408.30	408.30	408.30	418.00	210	2.32	Chad								
	200-220	408.30	408.30	408.30	418.00	210	2.32	Chad								
	220-240	408.30	408.30	408.30	418.00	210	2.32	Chad								
	240-260	408.30	408.30	408.30	418.00	210	2.32	Chad								
	260-280	408.30	408.30	408.30	418.00	210	2.32	Chad								
	280-300	408.30	408.30	408.30	418.00	210	2.32	Chad								
	300-320	408.30	408.30	408.30	418.00	210	2.32	Chad								
	320-340	408.30	408.30	408.30	418.00	210	2.32	Chad								
	340-360	408.30	408.30	408.30	418.00	210	2.32	Chad								
	360-380	408.30	408.30	408.30	418.00	210	2.32	Chad								
	380-400	408.30	408.30	408.30	418.00	210	2.32	Chad								
	400-420	408.30	408.30	408.30	418.00	210	2.32	Chad								
	420-440	408.30	408.30	408.30	418.00	210	2.32	Chad								
	440-460	408.30	408.30	408.30	418.00	210	2.32	Chad								
	460-480	408.30	408.30	408.30	418.00	210	2.32	Chad								
	480-500	408.30	408.30	408.30	418.00	210	2.32	Chad								
	500-520	408.30	408.30	408.30	418.00	210	2.32	Chad								
	520-540	408.30	408.30	408.30	418.00	210	2.32	Chad								
	540-560	408.30	408.30	408.30	418.00	210	2.32	Chad								
	560-580	408.30	408.30	408.30	418.00	210	2.32	Chad								
	580-600	408.30	408.30	408.30	418.00	210	2.32	Chad								
	600-620	408.30	408.30	408.30	418.00	210	2.32	Chad								
	620-640	408.30	408.30	408.30	418.00	210	2.32	Chad								
	640-660	408.30	408.30	408.30	418.00	210	2.32	Chad								
	660-680	408.30	408.30	408.30	418.00	210	2.32	Chad								
	680-700	408.30	408.30	408.30	418.00	210	2.32	Chad								
	700-720	408.30	408.30	408.30	418.00	210	2.32	Chad								
	720-740	408.30	408.30	408.30	418.00	210	2.32	Chad								
	740-760	408.30	408.30	408.30	418.00	210	2.32	Chad								
	760-780	408.30	408.30	408.30	418.00	210	2.32	Chad								
	780-800	408.30	408.30	408.30	418.00	210	2.32	Chad								
	800-820	408.30	408.30	408.30	418.00	210	2.32	Chad								
	820-840	408.30	408.30	408.30	418.00	210	2.32	Chad								
	840-860	408.30	408.30	408.30	418.00	210	2.32	Chad								
	860-880	408.30	408.30	408.30	418.00	210	2.32	Chad								
	880-900	408.30	408.30	408.30	418.00	210	2.32	Chad								
	900-920	408.30	408.30	408.30	418.00	210	2.32	Chad								
	920-940	408.30	408.30	408.30	418.00	210	2.32	Chad								
	940-960	408.30	408.30	408.30	418.00	210	2.32	Chad								
	960-980	408.30	408.30	408.30	418.00	210	2.32	Chad								
	980-1000	408.30	408.30	408.30	418.00	210	2.32	Chad								
	1000-1020	408.30	408.30	408.30	418.00	210	2.32	Chad								
	1020-1040	408.30	408.30	408.30	418.00	210	2.32	Chad								
	1040-1060	408.30	408.30	408.30	418.00	210	2.32	Chad								
	1060-1080	408.30	408.30	408.30	418.00	210	2.32	Chad								
	1080-1100	408.30	408.30	408.30	418.00	210	2.32	Chad								
	1100-1120	408.30	408.30	408.30	418.00	210	2.32	Chad								
	1120-1140	408.30	408.30	408.30	418.00	210	2.32	Chad								
	1140-1160	408.30	408.30	408.30	418.00	210	2.32	Chad								
	1160-1180	408.30	408.30	408.30	418.00	210	2.32	Chad								
	1180-1200	408.30	408.30	408.30	418.00	210	2.32	Chad								
	1200-1220	408.30	408.30	408.30	418.00	210	2.32	Chad								
	1220-1240	408.30	408.30	408.30	418.00	210	2.32	Chad								
	1240-1260	408.30	408.30	408.30	418.00	210	2.32	Chad								
	1260-1280	408.30	408.30	408.30	418.00	210	2.32	Chad								
	1280-1300	408.30	408.30	408.30	418.00	210	2.32	Chad								
	1300-1320	408.30	408.30	408.30	418.00	210	2.32	Chad								
	1320-1340	408.30	408.30	408.30	418.00	210	2.32	Chad								
	1340-1360	408.30	408.30	408.30	418.00	210	2.32	Chad								
	1360-1380	408.30	408.30	408.30	418.00	210	2.32	Chad								
	1380-1400	408.30	408.30	408.30	418.00	210	2.32	Chad								
	1400-1420	408.30	408.30	408.30	418.00	210	2.32	Chad								
	1420-1440	408.30	408.30	408.30	418.00	210	2.32	Chad								
	1440-1460	408.30	408.30	408.30	418.00	210	2.32	Chad								
	1460-1480	408.30	408.30	408.30	418.00	210	2.32	Chad								
	1480-1500	408.30	408.30	408.30	418.00	210	2.32	Chad								
	1500-1520	408.30	408.30	408.30	418.00	210	2.32	Chad								
	1520-1540	408.30	408.30	408.30	418.00	210	2.32	Chad								
	1540-1560	408.30	408.30	408.30	418.00	210	2.32	Chad								
	1560-1580	408.30	408.30	408.30	418.00	210	2.32	Chad								
	1580-1600	408.30	408.30	408.30	418.00	210	2.32	Chad								
	1600-1620	408.30	408.30	408.30	418.00	210	2.32	Chad								
	1620-1640	408.30	408.30	408.30	418.00	210	2.32	Chad								
	1640-1660	408.30	408.30	408.30	418.00	210	2.32	Chad								
	1660-1680	408.30	408.30	408.30	418.00	210	2.32	Chad								
	1680-1700	408.30	408.30	408.30	418.00	210	2.32	Chad								
	1700-1720	408.30	408.30	408.30	418.00	210	2.32	Chad								
	1720-1740	408.30	408.30	408.30	418.00	210	2.32	Chad								
	1740-1760	408.30	408.30	408.30	418.00	210	2.32	Chad								
	1760-1780	408.30	408.30	408.30	418.00	210	2.32	Chad								
	1780-1800	408.30	408.30	408.30	418.00	210	2.32	Chad								
	1800-1820	408.30	408.30	408.30	418.00	210	2.32	Chad								
	1820-1840	408.30	408.30	408.30	418.00	210	2.32	Chad								
	1840-1860	408.30	408.30	408.30	418.00	210	2.32	Chad								
	1860-1880	408.30	408.30	408.30	418.00	210	2.32	Chad								
	1880-1900	408.30	408.30	408.30	418.00	210	2.32	Chad								
	1900-1920	408.30	408.30	408.30	418.00	210	2.32	Chad								
	1920-1940	408.30	408.30	408.30	418.00	210	2.32	Chad								
	1940-1960	408.30	408.30	408.30	418.00	210	2.32	Chad								
	1960-1980	408.30	408.30	408.30	418.00	21										

NASDAQ NATIONAL MARKET[illegible]

Tokyo recovery does little to calm nerves

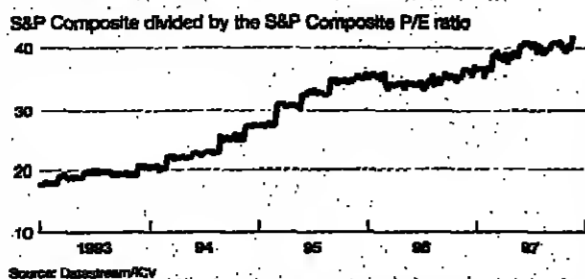
WORLD OVERVIEW

World markets settled down after their strong rally on Monday but there was little sense that the recent turmoil was at an end, writes Philip Cogan.

"The rally in Tokyo is a fairly isolated event," said James Montier, global strategist at NatWest Markets. "The thing that stands out is that most markets are drifting in fairly low volume. We are entering a period when equities are not going to be the best performing asset class by a long chalk. Investors should seek protection in cash."

The recovery in Tokyo did

US Inflation earnings



continue for a second session, accompanying details of the Japanese government's package to revive the economy. But the performance of the rest of Asia was mixed, with the after-

math of the slide in the Korean won causing renewed doubt about the stability of other currencies. The dangers of a spiral of competitive devaluations are evident.

A corporate bailout in Malaysia was not well received, with investors fearing strong companies would be forced to save the weak, rather than allowing the latter to go to the wall.

Such a strategy, in many commentators' eyes, would be likely to prolong Malaysia's problems.

The effect of the Asian crisis is slowly working its way through to analysts' views about the rest of the world. Goldman Sachs has lowered its 1998 earnings growth forecast for Europe ex-UK from 17 per cent to 15 per cent, in the US (although Asia is only one of many factors) it expects earnings

growth to slow sharply to 3 per cent in 1998, from 10 per cent in 1997.

A major caveat is needed about this forecast, in that Goldman is much more optimistic about S&P 500 companies; they are expected to grow earnings by 8.5 per cent, helped by higher quality earnings and share buybacks. Nevertheless, it is a striking prediction from one of Wall Street's more prominent bulls.

One of the reasons that Goldman expects profit growth to slow is the effect on profit margins of higher labour costs. Yesterday's US consumer price data showed a 0.2 per

cent month-on-month rise, exactly in line with forecasts, indicating that the tighter employment market was not yet showing up in high street prices.

However, because the data is historical, Mr Bob Craven of the Fixed Income Management Group in San Francisco warned that "the Fed ignores CPI results in setting policy".

With the US and the UK markets worrying about inflation, while most of the rest of the world is concerned about the risk of deflation, it seems likely that markets will remain volatile until the global economic trend becomes clearer.

EMERGING MARKET FOCUS

Seoul yet to hit the bottom

Analysts believe the Seoul bourse has not yet hit bottom as the share index approaches the 400-point level, its lowest since 1987. The plunge in the currency, the won, is expected to encourage a continued exodus of overseas investors worried about foreign exchange losses.

"The stock market is in free fall along with the won and I don't know how it can be stopped unless Korea takes drastic measures such as applying for a bail-out from the International Monetary Fund," said Daniel Harwood, north-east Asia manager for ABN AMRO Hoare Govett in Seoul.

However, the government is hoping that a financial stabilisation package to be announced today will help break the vicious cycle that has gripped the market, already down 87 per cent from this year's high of 792.29 in mid-June.

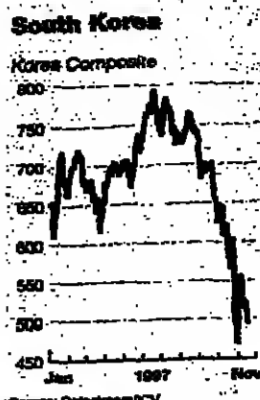
After falling 4.3 per cent to 496.98 points on Monday in response to the won breaking the psychological level of 1,000 to the dollar, the market stabilised yesterday at 494.86 as it awaited the government measures.

The falls in the currency and stock market have fed on each other. The exodus of foreign funds has put further downward pressure on the currency as investors sell won for dollars when they exit the market.

The won is at a record low of 1,012.20 to the dollar, a loss of nearly 20 per cent for the year.

The stabilisation measures, regarded as a last chance to restore foreign confidence, are expected to include efforts to clean up the debt-laden banking system and attract new foreign capital to ease a credit squeeze that has resulted in the collapse of several conglomerates this year.

But analysts believe the measures will do little to improve foreign sentiment. "Investors have woken up



to the fundamental problems affecting Korea and I don't expect they will return any time soon," said one UK institutional fund manager.

Foreign portfolio investments have fallen to an estimated \$9.10bn from this year's high of \$14bn, with the exodus accelerating in the last six weeks as the won began to drop sharply.

A recent survey of more than 100 foreign investors conducted by the Korea National Economic Institute found that the won depreciation was not the only cause for their withdrawal from the market.

They also cited poor management of Korean companies and the government's rescue of troubled conglomerates, such as the Kia motor group, instead of allowing them to go bankrupt.

However, a request by Korea for an IMF bail-out could revive foreign interest because it would accelerate financial reforms long urged by overseas investors.

If the IMF is called in, it is expected to demand that Korea opens its debt and equity markets fully to foreign investors, closes troubled commercial and investment banks, and eases the government's tight control over the financial sector.

John Burton

Dow slips as stocks take a breather

AMERICAS

US stocks took a breather yesterday following three days of strong gains as blue-chip and technology shares pulled back, writes John Labate in New York.

By early afternoon the Dow was down 14.25 at 7,683.97. The broader Standard & Poor's 500 also fell back, off 3.32 at 942.38, while the Nasdaq composite index lost 5.88 at 1,608.23.

"There's some consolidation going on, and some meaningful resistance of the S&P 500 around the 950 level," said Bill Meehan,

chief market analyst at Cantor Fitzgerald. "The pullback is very minor," he added. Analysts expressed relief that the market had not given way to a widespread sell-off, as it has following recent rises.

Shares in AT&T jumped 2 1/2% or more than 5 per cent at \$51 1/2 after two analysts, one at Lehman Brothers and the other at Sanford C. Bernstein, repeated their "buy" rating for AT&T's stock.

Investors were reminded of uncertainties surrounding the effect of the Asian currency and markets crises on US multinationals when Avon Products issued a warning to the market.

The stock plunged 8 1/2% or more than 13 per cent to \$56, as analysts cut their rating after the cosmetics company issued a warning late on Monday about fourth-quarter earnings.

Weakness in Asian and Latin American markets triggered the announcement. Some expect this to be an initial sign of further reductions in earnings estimates due to instability overseas. "It's a general worry about the economic aftermath, and investors are edgy," said

Hugh Johnson, chief investment officer at First Albany Corp.

"There is nowhere near the sense of urgency to buy stocks like there was after the corrections last spring and during the summer of 1996," Mr Johnson added.

Computer-related shares were mixed as Microsoft fell 3 1/4% to \$134 1/4, while Adobe Systems plunged more than 9 per cent or \$4 1/4 to \$44 1/4 after the company said that its fourth-quarter revenues would be lower than expected.

Banking shares were mostly lower as Treasury bond prices edged down. By early afternoon the benchmark 30-year Treasury bond was down 1/4 at 100 1/8, yielding 6.07 per cent.

However, the banking sector was enlivened by bid speculation. CoreStates Financial rose more than 9 per cent to \$79 on rumours that it was close to being acquired by First Union, whose shares fell 2 1/4% to \$50 1/4. Trading in both was halted early in the afternoon session.

TORONTO came off in the morning session after opening flat as the market tracked events on Wall Street. The TSE index was 22.69 lower at 6,776.

The metals sub-index bucked the trend, rising after a series of announcements from resource companies.

Noranda added C\$1.75 to C\$25.40 on news that it planned to sell its 49 per cent stake in Norcen Energy Resources.

Noranda also said it would spin off to shareholders its 66 per cent holding in Noranda Forest and its 100 per cent stake in Canadian Hunter Exploration. Norcen rose C\$3.25 to C\$35.05.

EUROPE

European markets were quiet after Monday's Asian-inspired rally. An uneasy start on Wall Street, uninspiring US inflation data and a weaker dollar conspired to leave shares flat.

FRANKFURT drifted sideways, with the DAX index ending just 27.43, or 0.7 per cent, higher at 3,844.14 in a largely directionless market.

Allianz typified the mood, with the shares falling back after a bright opening to end DM2.50 lower at DM399.50. Initial enthusiasm for the insurer's deal with AGF of France melted away as analysts decided that, while strategically sound, the deal would not enhance earnings until 2000.

More excitement surrounded Aechener & Munchener, an insurer in which Allianz holds a 5 per cent stake and AGF holds 33 per cent, on hopes that the combined shareholding

might be sold to finance the deal. Aechener & Munchener shares rose DM34 to DM545.

Elsewhere, Volkswagen continued to slide on negative sentiment surrounding possible corporate moves by the carmaker. Having already been a weak market on news of its interest in Rolls-Royce, VW fell DM15.90 to DM905 on rumours that the company was looking at bidding for Volvo of Sweden.

"Buying Volvo would make no sense for VW," said Ralf Menzel at BZW in Frankfurt. "The synergies in the car division are too small and investors have already seen how such deals can go wrong from General Motors' takeover of Saab."

Pharmaceuticals and healthcare equipment group Fresenius bucked the downbeat trend, ending DM9.50 better at DM120 in spite of worse-than-expected nine-month profits after the company gave an upbeat sales growth forecast

for the fourth quarter. PARIS was subdued in spite of the agreed counter-bid by Allianz for AGF, with the CAC 40 ending up 9.62 points at 2,782.61. Dealers said there was evidence of some profit taking by investors after Monday's 3 per cent gains.

AGF shares were suspended following the German insurer's agreed offer for 51 per cent of FFR320 a share, FFR20 a share more than Generali offered last month, although its offer was for 100 per cent.

The news sparked excitement elsewhere in the insurance sector, which has been a strong performer recently on restructuring hopes. GAN, seen as a possible target for the losing AGF bidder, was the main feature, closing up FFR2.5 at FFR132.5.

Worms et Cie, the conglomerate, was also boosted by the bid, rising FFR20.90 to FFR 517. AGF is a white knight bidder for Worms in its fight against François Pinault's Artemis, and the Allianz deal was seen as being more likely to leave this deal intact.

Elsewhere, Sanofi was the star as the shares responded to clearance from the US drug regulator for its anti-stroke drug Clopidogrel, developed in conjunction with Bristol-Myers Squibb of the US. The shares advanced FFR26 to FFR585.

Paribas was busy, with two blocks traded, representing 0.3 per cent of the capital. The shares rose FFR1.5 to FFR412.5.

ZURICH saw shares in travel operator Kuoni hit after the massacre in Egypt, a popular winter destination for the Swiss. Egyptian tourists are estimated to contribute about SFR100m annual operating profits, and the shares fell from SFR5.375 to SFR5.225.

Freddie Hasslauser, of Bank Sal. Oppenheim in Zurich, said: "We can expect some

FTSE Actuaries Share Indices

November 18	Index	Change	%	Dividend	Yield	Dividend	Yield
FTSE Europe 300	921.15	+0.39	+0.04	2.45	0.00	927.03	
FTSE Europe 100	2125.24	+0.12	+0.01				
FTSE Europe 300 Regions							
300 UK	829.67	-0.19	-0.02	1.75	0.00	842.51	
300 Ex-UK	916.08	-0.51	-0.05	4.08	1.88	918.94	
300 Europe	904.63	-0.61	-0.07	4.53	2.10	907.65	
300 Ex-Europe	933.80	+0.34	+0.04	2.29	0.00	941.55	
FTSE Europe 300 Economic Groups							
Resources	938.70	+0.54	+0.06	3.03	2.00	952.78	
General Industries	888.18	-0.68	-0.08	4.10	2.20	896.65	
Consumer Goods	901.33	+0.07	+0.01	4.00	2.21	910.54	
Services	942.43	-0.56	-0.06	4.29	2.23	948.30	
Utilities	950.41	-0.51	-0.05	4.84	3.43	955.84	
Financials	951.30	+1.59	+0.17	10.93	2.48	958.84	

costs to arrive short-term out of cancellations over the winter period from this tragic incident. But the price war on routes to south-east Asia is likely to have a more far-reaching impact on Kuoni."

Nestlé advanced after an upbeat management presentation for volume growth in the coming year, with the shares rising from SFR2.010 to SFR2.041. The SMI index closed up 9.2 points at 5,574.22.

AMSTERDAM saw KLM fall 30 cents to F169.50 as it denied it was planning to follow in the footsteps of British Airways and set up a low-cost airline. The AEX index closed at 880.01, 2.98 up on the day.

MILAN ended slightly

lower at the end of a listless day, with the Mibtel index ending 30 down at 15,106.

Generali was the main feature, ending down L612 at L38,371 on concerns that it might increase its offer for AGF of France following the emergence of Allianz as a white knight.

MOSCOW rallied 6 per cent as oil stocks rose, boosted by Monday's corporate news in the sector. The RTS index ended 20.9 higher at 380.31.

ATHENS stabilised after Monday's losses and the general index advanced 4.66 per cent, or 60.75 points, to 1,391.79, although trading volumes were thin.

Written and edited by Jonathan Ford, Peter Hall and Martin Brice.

SOUTH AFRICA

Johannesburg ended lower in spite of a late rally, inspired by a strong bond market and hopes of another good day on Wall Street. The all-share index closed down 8.8 at 6,418 in this trading. Traders said the late bounce was also helped by a slightly firmer gold price. Bullion prices have weighed on the market following last week's fall in gold to 12 1/2-year lows. The gold index fell 2.1 to 781.1.

São Paulo drops back

SAO PAULO slipped back after Monday's gains and by early afternoon the Bovespa index had lost 3 1/4 or 2.5 per cent to 8,738. Volume was below average at R\$217m.

Telebras, the federal telecommunications group, moved back R\$4.50 or 4 per cent to R\$107.50.

MEXICO CITY cut its losses on moderate buying in the wake of strong third-

quarter gross domestic product figures. The IPC index was down 38.95 or 0.85 per cent at 4,549.38 but off a low of 4,524.06.

LIMA slipped on profit-taking, triggered by a lacklustre session in New York and continuing jitters over volatile world markets, traders said. The general index fell 7.25 or 0.4 per cent to 1,785.08.

Kuala Lumpur hit by UE move

ASIA PACIFIC

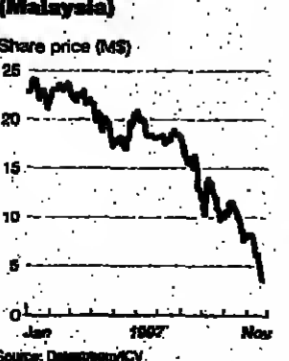
News that United Engineers, a Malaysian infrastructure company, had bought a 32.6 per cent stake in its controlling shareholder, Renong, triggered a 7 per cent fall in KUALA LUMPUR.

UE, one of the market's more sought-after stocks because of its strong cash flows and growing business, lost 40 per cent of its value on the news, falling M\$2.39 to M\$3.66. Following the move, most of its cash will be diverted into propping up heavily-indebted Renong.

Analysts said the deal showed that there was something wrong with corporate Malaysia. "We have seen this before and it is called Japan," said David Bates at Paribas Asia Equity. "Investors are terrified Malaysia is going down the same route, with cash-rich companies bailing out parents' or affiliates' debts. It has put the fear of God into companies with large amounts of cash."

The deal hit other blue-chip shares regarded as solid investments following this autumn's market turmoil. Sime Darby, a bellwether conglomerate, fell

United Engineers (Malaysia)



M\$0.30 to M\$3.94. Telekom Malaysia shed M\$1.20 to M\$8.15 on reports it might buy a stake in Time Telecommunications, another Renong unit.

The composite index plummeted 45.20 to close at 622.09, its lowest level since January 1993. Decliners led gains 751 to 30, with 40 shares unchanged and 74 untraded.

TOKYO posted another significant rise with the Nikkei 225 average gaining 443.25, or 2.72 per cent, to 16,726, helped by a hint from Ryutaro Hashimoto, the prime minister, that public funds might be used to sup-

port the troubled financial system, writes Poul Abrahams.

The Nikkei has risen 11 per cent this week following the government's decision on Monday to let Hokkaido Takushoku, the country's 10th largest bank, go bust.

After the market closed, however, Mr Hashimoto was reported as denying that he was considering using public funds to prop up the banking system.

The Nikkei's intra-day low was 16,089 but at one point it broke through the 17,000 mark to reach 17,006. Turnover continued to be heavy, with 649m shares traded. There was momentum behind the rise, with a total of 786 first-section shares were up, 398 down and 121 unchanged. December futures rose 930 points to 16,970 after rising by their daily 1,000-point limit for the second consecutive day.

Banking and securities stocks helped the market higher, up 2.2 per cent and 1.17 per cent. Yamaichi Securities, the troubled broker, was the most heavily traded stock, but it remained unchanged at ¥108. Taiheyo Securities fell ¥11 to ¥75.

Construction stocks took a beating. Bad results and downbeat statements hit the sector. Sato Kogyo suffered the indignity of making a statement insisting it was not in difficulties. Its shares fell 27 per cent to ¥71 and Sekitokyo Kogyo 10 per cent to ¥107.

The Nikkei 300 rose 5.09 to 25,176, and the Topix index of all first section stocks 22.18 or 1.76 per cent to 1,280. In Osaka, the OSE index rose 343 at 17,351 on volume of 13.3m shares.

HONG KONG lost ground after a rise in three month interbank rates to 11.3 per cent sparked profit-taking. The Hang Seng index ended down 174.57 at 10,245.18 in low turnover of HK\$2.8bn.

Property and financial stocks were hit. Nearly 50 points of the Hang Seng's fall were accounted for by two stocks: Cheung Kong, down HK\$1.25 to HK\$50.75, and HSBC, down HK\$2.50 to HK\$177.

JAKARTA fell 5.33, or 1.2 per cent, to 434.21 - its lowest level for two years - as investors dumped banking stocks as they rallied following this week's interest rate cut.



مكتبة الامم المتحدة

FT telecoms

FINANCIAL TIMES
REVIEW OF THE
TELECOMMUNICATIONS
INDUSTRY

November 1997

Competition has lowered prices, improved quality and led to explosive growth in the cellular industry. Mobile telephony is moving away from its initial role as a high-priced niche service for business users to serve the mass market. Alan Cane reports

Mobiles for the masses

The mobile phone industry worldwide is maturing rapidly despite variations in the rate of progress between different economies and geographic regions.

This coming-of-age is revealing itself in plans for the next generation of mobile phones offering the prospect of mobile multimedia, a trend towards the convergence of fixed-line and mobile services, and the impending launch of the first hand-held satellite phone services.

The emergence of mobile phone services more than a decade ago brought a whiff of liberalisation and competition to markets which had been firmly closed.

So from the early 1980s, US subscribers have had a choice of at least two cellular operators in each geographic region while their only freedom in fixed-line services was the right to opt for a particular long-distance carrier.

In the UK, the government was prepared to countenance four operators, two providing services suited to the business market - traditional analogue and GSM digital - and two offering nonbusiness mass market digital services.

In mainland Europe, while fixed-line national operators are entitled to maintain their monopoly status for a further few weeks, most countries support at least two competing mobile suppliers.

The same is true of the Asia Pacific region, where in Japan, for example, handset sales have been deregulated and three digital mobile phone operators have been licensed since 1994.

Competition has broadly lowered prices, improved quality and led to an explosive growth in the cellular business.

The newsletter *FT Mobile Communications* reckons that the world cellular subscriber total will pass 200m by the end of this year, a

penetration rate of more than 4 per cent.

This figure is remarkably small. In countries which have shown the most enthusiasm for mobile phones, notably the Scandinavian countries, penetration rates - the number of mobile phones per head of population - are heading towards 50 per cent. The implication is that there is huge unsatisfied demand for mobile communications waiting to be tapped.

The Chinese market is making strong headway, for example. With 7.16m subscribers at the end of last year, it was the third-largest in the world. If its existing annual growth of 98.9 per cent is maintained, the newsletter notes, there will be 15m Chinese subscribers by the end of this year.

The cellular industry's existing subscriber numbers, coupled with its potential to grow at such remarkable rates, is giving its principal operators a new significance in the world telecoms industry.

As competition intensifies, two trends are likely to emerge.

First, operators with both fixed-line and mobile infrastructures in their armoury will consolidate their services offer in an attempt to retain customers through a combination of the best of traditional services and the

new advantages of mobile. The Swedish operator Telia exemplifies this trend.

Second, mobile and fixed network operators will increasingly fight for each others' business. Mobile operators such as Airtouch of the US or Vodafone of the UK are already significant operators with strong revenues and profits. They are capable of competing for traditional operators' customers on a global basis.

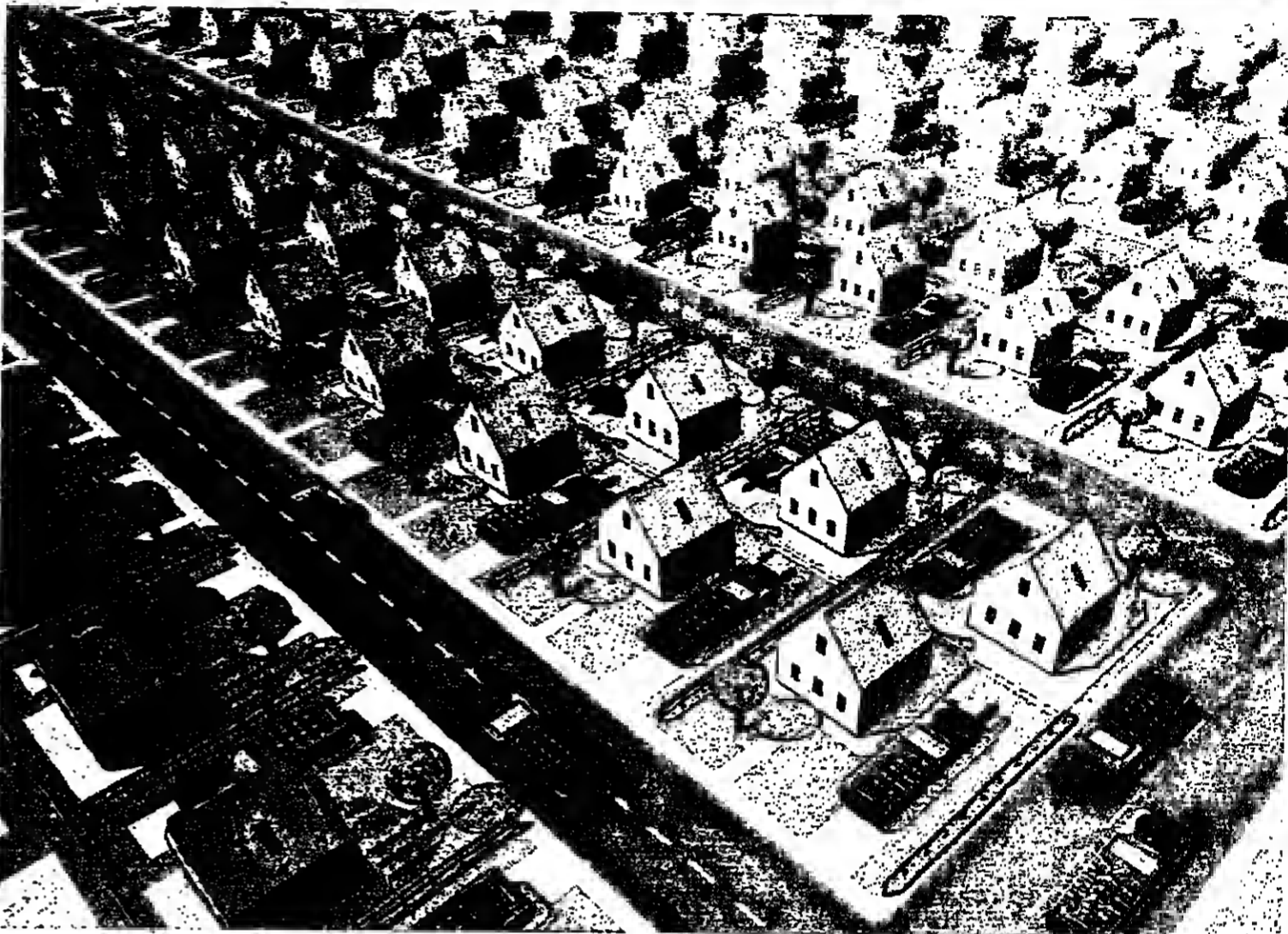
The principal driver for fixed-mobile convergence is the customer. According to the International Telecommunications Union, the United Nations agency which oversees the global business, mobile is taking an increasing percentage of the value of the global telecoms market.

It rose from just under 5 per cent in 1990 to just under 20 per cent of a market worth about \$600bn in 1996. Penetration is increasing, as costs fall.

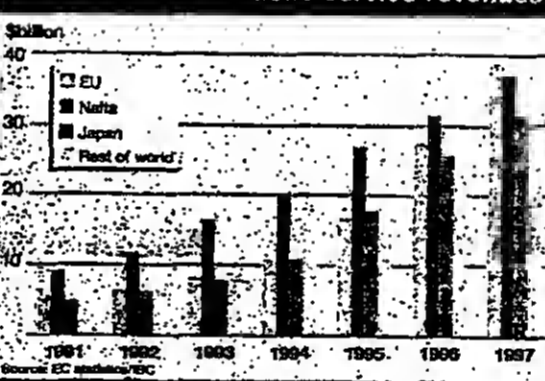
Susan Ablett of the consultancy Analysys, who has written a report on fixed-mobile convergence, says mobile operators are eyeing the business of their fixed-line contemporaries for a variety of reasons.

First, competition in the mobile sector is increasing. The European Commission wants at least three operators in each country.

Second, the cost of making



Mobile communications service revenues



a mobile call is rapidly approaching the cost of a conventional call.

In Italy at certain times of the day it is already cheaper to use a mobile than a fixed phone.

Competition and falling prices will ensure that average revenues per subscriber will also fall. This will accelerate with the growth of pre-

paid card services. In short, mobile communications is moving away from its initial role as a high-priced niche service for business to the mass market.

Ms Ablett says: "The success of mobile networks means that incumbent operators can now foresee a time when customers could rely on mobile operators for all

their communications requirements."

An example of this trend is Cellnet, the UK's second-largest mobile operator, which cuts the cost of mobile calls for customers including British Rail, Nat- West Bank and the BBC, by routing calls through its private network rather than through the public network.

The fixed-line operators best prepared for fixed-mobile convergence, Ms Ablett suggests, are Telecom Italia and Telia.

As Claude Déchaux and Bernard Depouilly of the French manufacturer Alcatel point out in a recent study*, the attractions of mobile telephony to customers are so strong that a universal mobile service should be a huge success provided ways can be found to offer it at a competitive price.

But such a system, they argue would have to have the same transmission and

service quality as traditional copper or fibre optic-based fixed networks. The poor quality of today's services is a measure of the value customers attach to mobility.

The search for the technology to provide services of both adequate quality and capacity is engaging engineers in most of the world's leading telecoms laboratories.

Today, the de facto world standard for digital mobile telephony is the European-derived system GSM (Global System for Mobile Communications).

The principal competition is expected to be the US-developed CDMA (Code Division Multiple Access) which is now being deployed in several regions of the world. AMPS, a digital variation on the US-developed analogue system, is also finding increasing acceptance. And PHS (Personal Handy Phone System) is proving popular

in Japan and south-east Asia.

There is talk of a debate or battle between these standards. In reality, the challenge is to develop the next generation of mobile phones which will display the capabilities of a television set, a computer and a music centre as well as the traditional telephone handset.

The accepted European description of this mobile phone standard of the future is UMTS. Universal Mobile Telephone Services. UMTS is not a standard but a specification of the kinds of services such a third generation service should provide. Moving video images on the handset screen is an obvious example.

Manufacturers are beginning to refine their ideas. Alcatel of France, Italtel of Italy, Nortel of Canada and Siemens of Germany, for example, are supporting a combination of CDMA and GSM features for the new systems. Last month, they were joined by Bosch of Germany and Motorola, the world's largest supplier of mobile phones.

Arthur D Little, the high-technology consultancy, says that there are likely to be different solutions to the UMTS question from the US and Japan. The battle for the portable phone of the future has hardly begun.

* *Commercial Strategies for Fixed-Mobile Convergence*. Analysys, Suite 2, Quayside, Cambridge CB5 8AB UK, £1195.

** *Alcatel Communications Review*, 3rd Quarter 1997

Mobile Communications

FT writers examine aspects of the industry, including mobile networks and convergence

Pages 3-8

Telecoms in business

Key developments in outsourcing, call centres and value-added services

Page 10 and 11

Product update

A look at new equipment and services on the market

Page 14

Callback

Dates for your diary, news, reviews and industry gossip

Page 15

There are no barriers only bridges.

Let's talk. A truly global communications network is a bridge that spans the world. It's the bridge that connects you with your customers, suppliers and employees to help you build better business relationships.

BT (British Telecommunications plc) has this global network of services and applications. One that links over 1,300 cities in 110 countries. In Asia Pacific alone, BT is in 16 countries and 66 cities.

If you want to build your bridge across the world, let's talk.

Call us on +44 1179 217721 (Europe), +61 2 9269 1273 (rest of the world) or visit our website at www.btglobal.com



Global Communications

COMMENT • By Alan Cane

Churn is 'cause for profound concern'

It is time for the operators to reinvent their relationship with their customers

Churn is blighting the development of the telecommunications business. It is particularly virulent in the mobile sector where rates as high as 30 per cent are common.

It is already having a serious effect on individual companies and on the overall profitability of the sector.

Andersen Consulting, which has been researching the phenomenon, says it is: "a sign of a major dysfunction in the industry and a cause for profound concern".

Churn is a measure of the proportion of subscribers leaving or being excluded from a network in any given period.

High churn is an indication of an immature industry which has yet to learn the finer points of customer care and management and which has a cavalier attitude to customer loyalty.

The cost of churn is high. Andersen's figures suggest it costs operators in North America and Europe alone a total of \$4bn each year. The cost of acquiring a new subscriber is now about \$400 with an average pay-back period for the operator of three years.

So, Andersen points out,

operators with churn rates of 20 per cent will see no return on an investment in new subscribers.

On the other hand, by reducing churn by five percentage points, an operator could increase shareholder value by as much as 20 per cent.

The phenomenon has a multiplicity of causes. Fraud or bad debt is the principal reason why operators disconnect subscribers.

Customers, however, are likely to churn because of dissatisfaction with the quality or cost of service.

Moreover, the poor quality of the industry's understanding of churn is underlined by Andersen's finding that about 40 per cent of subscribers apparently defecting to another operator were in fact moving to other packages or networks offered by the same carrier.

The problem is exacerbated by the structure of the industry which uses service providers and dealers to distribute mobile services and rewards them for recruiting new subscribers. This insulates operators from their customers while providing little incentive for the distributors to try to discourage churn.

The problem seems unlikely to go away in the near term. Increasing competition in mobile services will give customers greater choice and make it easier for them to express dissatisfaction by switching between operators.

Operators have been complacently watching the spectacular growth in subscriber numbers, but now they will have to hit the bullet.

They will have to build systems that distinguish between high-value customers, who must not be allowed to defect, and the rest.

Computerised systems can now help to identify customers likely to churn, giving operators the opportunity to attempt to change their minds.

They will have to improve mobile services until they approach the standards of quality and price set by wire-line telephony. And they will have to improve their marketing techniques.

Relationship marketing is one possibility. Here the use of a mobile phone is linked to another service from another supplier.

The "Barclaycard Phone" offered in the UK by Cellnet in conjunction with Barclaycard is one example which, according to Cellnet, has cut churn markedly.

Prices which are closer to what subscribers expect from a wireline service will both encourage greater use of the phone while reducing the sense of shock many customers experience on receiving their bill.

Prepaid cards, which do away with the need for credit checks, have a role here.

In short, the operators will have to reinvent their relationship with their customers.

ON THE LINE: Lars Ramqvist, president and CEO of Ericsson • By Joia Shillingford

Competitors in his sights

An early entry to the digital market plus strong commitment to R&D spending have proved to be decisive in Ericsson's good fortunes

Competition is intensifying among manufacturers of mobile phones as Ericsson jostles for position against a revitalised Motorola, phone makers such as Nortel, and consumer electronics giants. But Lars Ramqvist, president and chief executive officer of Ericsson, has a clear strategy for fending off competition - spending on research and development.

He says no other mobile phone maker spends as much on R&D and this gives Ericsson an advantage. This year, the Swedish company will spend 17 per cent of its turnover on research. In particular it is working on dual- and triple-mode handsets and on third-generation mobiles.

Its dual-mode handsets, which work on Global System for Mobile (GSM) 900MHz and 1800MHz frequencies, will be available early next year. Its triple-mode handsets are a best-seller in the US where they can be used on AMPS analogue networks or on both types of digital AMPS (D-AMPS) networks.

Next-generation mobiles from Ericsson will offer high-speed data transmission and the ability to handle multimedia, the Internet and videoconferencing.

This strategy of competing on technological leadership has worked for Ericsson before. In fact, one of Mr Ramqvist's biggest challenges was meeting Wall St analysts in 1991 to tell them

they could forget about short-term profits because he would be increasing R&D spending by 50 per cent.

This decision was taken by Mr Ramqvist because he had the opportunity to build a Japanese digital network not based on the more familiar GSM standard. The decision paid off and since then the company's market capitalisation has increased more than 40 times.

But Mr Ramqvist's biggest challenge was encouraging Ericsson to enter the mobile phone market at all. His first job when he joined the company was to turn round the computer division, which sold minicomputers and personal computers. "This was a failure," says Mr Ramqvist, who - after a successful stint in the mobile radio division - recommended that the company get out of computers and focus on mobile technology.

"As so often happens," says Mr Ramqvist, "you recommend something and you end up being asked to do it."

In 1988, he sold the computer division to Nokia of Finland, now a rival mobile phone company. Nokia then sold it to ICL. In 1988, Mr Ramqvist also became head of Ericsson's mobile radio division. He began to ask business people and academics whether they thought Ericsson should make mobile phones.

"They all said no," recalls Mr Ramqvist, "because Ericsson was not in the consumer market. But I decided



Lars Ramqvist in many ways a fitting successor to Lars Ericsson

to go ahead anyway. My argument was that we could sell mobiles as an add-on to the equipment we sold for cellular networks. At that time, there were few mobile phones around, and I thought making them available would help sell network infrastructure." So it proved. Surprisingly, Mr Ramqvist does not say much about the difficulty of bringing people round to his point of view. Perhaps they did not dare to disagree. He talks quickly and decisively and does not expect to be interrupted or opposed.

Ericsson's first analogue phones came on to the market in 1984-87, closely followed by GSM digital phones in the early 90s. Getting into the digital market early was to prove decisive. Ericsson received large orders from Mannesmann in Germany and from the Swedish market, gaining a leading position in digital mobiles. It is still the number one supplier of infrastructure for digital cellular networks.

Ericsson's recently-reported third-quarter results show the company continues to prosper, although Mr Ramqvist says: "We respect the competition and won't relax for a single moment." Third-quarter profits were more than double the same period a year ago, with pre-tax profits reaching SKr4.23bn (\$551m) in the three months ending September 30.

Booyant sales of mobile handsets boosted results, along with favourable currency shifts. Third-quarter revenues also rose - to SKr40.41bn, compared with SKr38.17bn a year ago. And gross margins and market share were up. For the nine months, sales increased from SKr78.2bn to SKr112.6bn, while pre-tax profits rose

from SKr5.26bn to SKr10.33bn. Order bookings were also up.

The company is well-regarded by financial analysts. It was voted best Swedish company last month in a survey of 100 London-based analysts. Yet it still has work to do. Mr Ramqvist wants to improve the performance of Ericsson's Infocom division, which includes the company's non-mobile telecommunications products such as switches for telecoms networks and Internet products. The problem is that deregulation and liberalisation in European telecoms markets is driving down the price which telecoms operators (telcos) will pay for equipment.

The challenge for companies such as Ericsson is to reduce costs just as quickly. Already, it has transferred 12,000 staff from its Infocom division to its mobile division in the past 18 months, with a maximum of 500 job cuts. It is planning to redeploy another 5,000.

It is introducing some innovative products for the Internet market. These include a product that enables one phone line to be used for voice and data. It is also investing in public intranets, where Ericsson helps telcos such as Telia build intranets (private internets) for customers - using the public network.

Mr Ramqvist says that one of Ericsson's strengths is that it has been in the telecoms and mobile radio markets such a long time.

Under Mr Ramqvist it was the first to make handheld mobiles in Sweden, while founder Lars Ericsson was the first to make telephones in Sweden.

In many ways, Lars Ramqvist is a fitting successor to

Ericsson milestones

- 1876: Lars M Ericsson founds a repair workshop in a kitchen with a 14-year-old apprentice and SKr2,000 - half from a loan, half from business partner Karl Johan Andersson.
- 1878: Ericsson starts repairing foreign phones and sells 23 of his own making.
- 1896: Aktiebolaget L M Ericsson & Co is formed with a share capital of SKr1m.
- 1903: Lars Ericsson resigns from the board to concentrate on farming techniques.
- 1930: Lars Ramqvist joins as vice-president and head of the information systems division.
- 1966-67: Ericsson makes its first hand-held analogue mobile.
- 1988: The computer division is sold to Nokia and Ramqvist becomes head of mobile radio.
- 1990: Lars Ramqvist becomes president and chief executive officer of Ericsson.
- 1991: The first digital mobile phone systems are installed in the Nordic countries and Germany.

Lars Ericsson, Ericsson was a poor farm hand who started work at a telegraph company, then learned more by gaining government grants to work and study abroad.

Mr Ramqvist comes from a humble mining background and originally planned to become a geologist. "I always had to work for everything," he says.

His first job was as a researcher for Stora Kopparberg, which was in mining at that time. But while at Stora, he started studying for a doctorate in electronic spectroscopy (a branch of microelectronics) under Prof Kai Siegbahn, whose contributions to electron spectroscopy were awarded the Nobel Prize.

Mr Ramqvist then moved to Swedish conglomerate Johnson Industries, where he became head of research, before Ericsson hired him for his licensing experience.

In later years, Lars Ericsson spent a lot of his time on his farm developing innovative farming techniques. Mr Ramqvist also has a farm, south of Stockholm, where he spends weekends. This has deer, moose, forestry and wheat.

Mr Ramqvist has a licence to kill 12 moose, with eight still to go this season. "Outside work, you have to do something completely different," he says.

For the energetic Mr Ramqvist this means hunting moose, deer or birds, or playing the saxophone or bassoon. He recently went hunting with the King of Sweden.

Fifty moose were killed in all, with Mr Ramqvist and the King taking three each.

WHEREVER THERE ARE PEOPLE, THERE IS EQUANT.

4:37 p.m. Kathmandu Nepal.

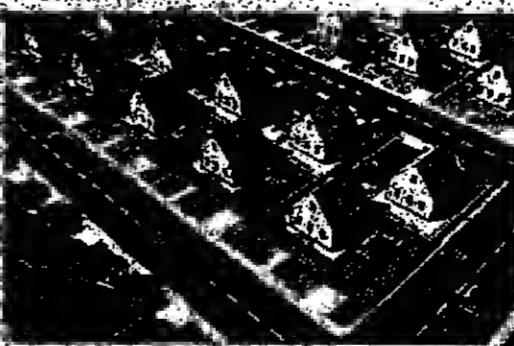
Here, time is marked with seasons, not minutes. But if you don't have the design specifications by day's end, the new factory may never be built. The original design is with an outside vendor in Argentina. The home office in Munich must first review. This data is highly classified. Worried? Not if your network is EQUANT. Our Network Solutions let you transfer huge amounts of data to over 225 countries and territories. Safely. Instantaneously. All because we own and operate the largest private network in the world. What does that mean to you? Greater reliability. Tighter security. Speedier access to your people and markets. Simply a better way to work. Even at the ends of the earth. For data, voice, video, Internet and intranet, EQUANT has your world covered.

www.equant.com

Amex: 47 508 121 0160. Europe: 44 50 122 77 571. Asia Pacific: 415 382 9286.

EQUANT
Architect of Your World Communications

FT telecoms



FT telecoms editor Philip Sanders
Fax: 0171 575 5197

Graphic: Robert Mather and Steven Bayard
Cover Illustration: Simon Fell
Next issue: March 1998

Editorial inquiries: the details of the Fax-U-Back service, please fax a request to Suzanne Parsons, FT Telecoms Secretary, in London on 0171 575 5197. Callers from outside the UK should add their country exit code plus country entry code (44 for UK), omitting the initial zero. The telephone helpline is on 0171 575 4378. Readers' inquiries: 0171 575 5211. E-mail: FT.TC@FT.com

For advertising details, contact:

In London:
Ian El-Corbati: FT Advertisement Sales
Telephone: (44) 0171 575 4148 or fax: (44) 0171 575 3095

In the US:
New York: William McLeod, telephone (212) 752 4500.
San Francisco: Nick Maize, telephone (415) 397 5775

Subscriptions: readers of the FT telecoms review can now ensure they receive their own copy by post. For details and to check your order, please contact: Subscriptions department, on 0171 538 5288 (UK callers), or 44 171 538 5228 (overseas callers), or write to:

Financial Times
Number One, Southwark Bridge,
London SE1 1HL

The FT web site provides online news, comment and analysis at <http://www.ft.com>.

Full Back Information

FT Telecoms is a new publication, published twice a year, providing a comprehensive overview of the telecommunications industry. It covers a wide range of topics, including market trends, technology developments, and company profiles. The publication is designed to provide readers with a clear and concise overview of the industry, making it an essential resource for anyone involved in telecommunications. The first issue of FT Telecoms was published in March 1998, and it is expected to continue to provide valuable insights into the industry for many years to come.

صكنا من الالاحل

MOBILE NETWORKS • By Alan Cane

Arguments delay next generation

A plethora of systems incapable of communicating with each other could evolve

The future of the next generation of mobile telephone services is being hindered by arguments over technology and standards.

Last month, the radio communications assembly of the International Telecommunications Union (ITU) gave its blessing to a standard which it hopes will give rise to a technical framework capable of accommodating different "flavours" of mobile systems.

The ITU, the United Nations agency with responsibility for global telecoms, said the standard would give the go-ahead to manufacturers and operators for the co-ordinated development of third-generation systems.

Industry experts are concerned, however, that regional interest groups are pressing ahead with their own standards, leading to

the danger of a plethora of third-generation systems incapable of communicating with each other. Clare McCarthy of Ovum, the IT consultancy, puts it starkly: "The third-generation systems and associated standards now look in danger of becoming as fragmented as their predecessors."

The implication is that global "roaming" with a single handset will be unlikely.

Andrew Watson of Motorola in the UK told an IBC conference in London last month: "The three major telecoms regions of the world - Europe, the US and Japan - have based the evolution of their existing mobile systems on different standards and while it was originally hoped that one worldwide standard could have been developed, it is now realised that it is not possible."

"Third generation" implies technological succession, but in reality, second generation and third generation mobile systems are likely to operate in parallel for some considerable time.

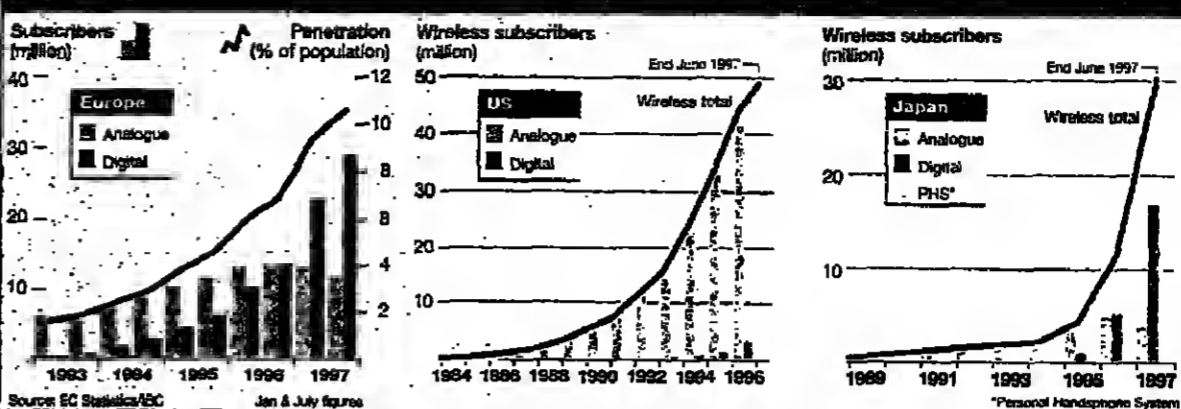
According to Mike Short of the UK operator Cellnet, "It is likely the two generations will have to coexist for the next 15 years."

The fact is that GSM, the European-developed de facto standard for digital second-generation phones can already provide many of the features - mobile telephony coupled with two-way radio, paging and data services - that were thought to be the province of the next generation of systems.

As Mr Watson said: "Third-generation systems are now becoming recognised as the main opportunity to provide mass-market multimedia services via wireless in the future, emphasising their unique broadband capability."

That means a combination of voice and non-voice services including internet web browsing and public information, business and financial services, education and entertainment and global roaming. But is there a demand for these advanced services?

Exploding mobile market



Richard Snyder director of Lucent Technologies' GSM product marketing group, points out: "We still have not seen an operator produce a business case for UMTS" (Universal Mobile Telephony Services, a general term to describe the standard for third-generation systems).

Manufacturers and operators are convinced, however, that UMTS will provide an answer to the demands of subscribers anxious to combine mobility with multimedia.

Work on the new systems started some five years ago when the World Administrative Radio Conference (WARC) in 1992 decided the chosen frequency bands for the new services would be

1,885MHz-2,025MHz and 2,110MHz-2,200MHz. This became known as International Mobile Telecommunications 2000 (IMT2000).

The idea was to facilitate high-speed data transmission of up to 144,000 bits of information (bps) on the move and 2m bps when stationary. Today's second-generation systems transmit only 9,600 bps.

Mobile networks will have to be upgraded in two areas to conform to the WARC view of IMT2000: the "air interface" between the base station and the handset, and the intelligence built into the network.

Inevitably, the battle for the new standard is being led by the manufacturers.

Earlier this year, Europe's four largest telecoms manufacturers - Ericsson of Sweden, Nokia of Finland, Siemens of Germany and Alcatel of France - agreed to work on a design which leans heavily on the GSM (Global System for Mobile Telephony) standard developed in Europe for network features.

GSM has become essentially the world standard for digital mobile telephony over the past few years and offers a rich set of features within its specification which customers will expect to see reproduced in future, more advanced systems. Code Division Multiple Access (CDMA), a US-developed technology

which in theory offers capacity advantages over GSM, is being deployed in several US states and in Asia.

Last month, Ericsson said it would work with Nokia and Motorola of the US, the world's largest manufacturer of mobile telephony equipment, to help Japanese companies develop a wireless system capable of transmitting multimedia services.

The companies are investing in Yokosuka Park, a research centre just outside Tokyo, where at least 31 Japanese companies with interests in developing third-generation mobile systems are putting down roots. Ericsson and its

collaborators are developing technology called Wideband Code Division Multiple Access (W-CDMA).

An alternative system, however, is being supported by Siemens of Germany, Italtel of Italy and Northern Telecom of Canada. It is called TDMA/CDMA.

Other variations such as OFDM (Orthogonal Frequency Division Multiplexing) are also in contention.

The European standards-setting body is expected to make a decision about UMTS later this year ready for the opening of services in 2002.

The introduction of satellite-based mobile services from companies such as Iridium, GlobalStar, Odyssey and ICO Communications around the turn of the century adds a further dimension.

These systems are not, in the first instance, geared to multimedia. They are planned as voice services for travellers in areas where it would be uneconomic to deploy conventional cellular infrastructure.

Eventually, however, it is likely these systems will be fine-tuned to provide multimedia-on-the-move, putting flesh on the bones of the concept of "any information, anywhere, anytime".

CONVERGENCE • By Fran Littlewood

Operators gear up to jump on the bandwagon

Fixed and mobile telephony will soon cease to exist as separate concepts

Privately-owned Finnish telecommunications operator Helsinki Telephone Company (HTC) this May launched the world's first convergent fixed-mobile telephony service. The move marked the beginning of the end of the separate concepts of fixed and mobile telephony as we know them, with operators across Europe gearing up to jump on the bandwagon.

The company is offering cut-price mobile calls at rates comparable to those charged by fixed-network operators, giving customers cheap mobility. Although its service is run on the company's digital cellular DCS-1800 network in Helsinki, HTC is positioning the service as an extension of the fixed network in the local-telephony loop, rather than just another cellular service.

As liberalisation in the telecoms market means the arena is becoming increasingly cut-throat, telecoms companies are looking for ways to differentiate their services. For fixed-line telephone companies, the way forward is perceived as offering wide-area mobility at low prices - particularly in view of the fact that the price of cellular-telephony services is dropping. Mobile-only operators meanwhile are keen to attract increasing numbers of subscribers by pushing rates comparable to fixed services.

Danish cellular operator Sonofon has announced its intention to launch a service similar to HTC's, also run over its DCS-1800 mobile network, which will enable cellular users to make cut-price calls from within a zone around their home or office, and standard-price calls from anywhere else. Its aim is to move its mobile network into the fixed environment. Subscribers will have one number and receive one bill for all calls.

The operator claims the price of calls from the home or office cell will be close to the local peak-time fixed-network rate of Tele Danmark, the national fixed-line operator in Denmark; about half the price of the lowest existing off-peak rate on a cellular network.

In September, Tele Danmark itself launched a fixed-mobile service, called Duet, designed to forward calls from a customer's fixed home phone so that they can be reached via a single telephone number. Customers receive a single bill for the service. It costs less for users to subscribe to Duet than if they buy fixed and mobile services separately.

Tele Danmark believes that customers are not interested in whether the technology they are using is fixed or mobile, but are simply concerned with convenience. The launch of the Duet service has fuelled specula-

tion that the company is set to reintegrate its fixed-line business with its mobile arm. And it highlights a problem with the concept of convergent services.

While cellular operators are keen to compete directly with fixed-line operators in voice telephony by cutting prices to win traffic away from the fixed networks, fixed operators with mobile subsidiaries or interests are clearly anxious to capitalise on both their fixed and mobile networks by merging the two technologies.

Swedish national telecoms operator Telia has already reintegrated its fixed and mobile divisions which operated previously as separate entities, and other companies are expected to follow suit. Companies as well as technologies are set to converge.

Convergent services across the board are inevitable, according to merchant bank Salomon Brothers. In Denmark, for example, wireless operators are already beginning to price their existing services low enough to cannibalise wireline revenues. Analysts there believe Denmark could become the first country in Europe where the majority of voice telephony is conducted via wireless technology and add that in years to come up to 70 per cent of voice telephony could be carried over mobile networks.

Salomon Brothers expects convergent services to spring up first in Scandinavia where the market is highly penetrated and more developed on the cellular side, then Europe-wide and eventually worldwide.

In the UK, Orange announced in September it was conducting trials on a service that would allow customers on its DCS-1800 network to make cheap calls at a similar rate to fixed-line networks by adopting the "home zone" approach. Scandinavian fixed-line operators Telia and Tele8 have also said they plan to launch convergent services, as has BT, as part of Viag Intercom, the consortium in Germany in which BT is a shareholder.

Users will see the most benefits as a result of convergent services because increased competition will see prices fall significantly and more convenient joint billing systems develop, according to Elaine Arby, head of mobile at independent telecoms consultancy Schema. The market for handsets will also open up, and telecoms equipment manufacturers will shift more stock.

The picture will be mixed for operators. While mobile operators will see an increase in subscriber numbers, convergent services will put the squeeze on margins as average revenue per subscriber plummets. Fixed operators meanwhile will lose out in terms of cash generated via fixed network traffic, but will pull in revenues from affiliated mobile services.

Do you want to serve your customers or amaze them?

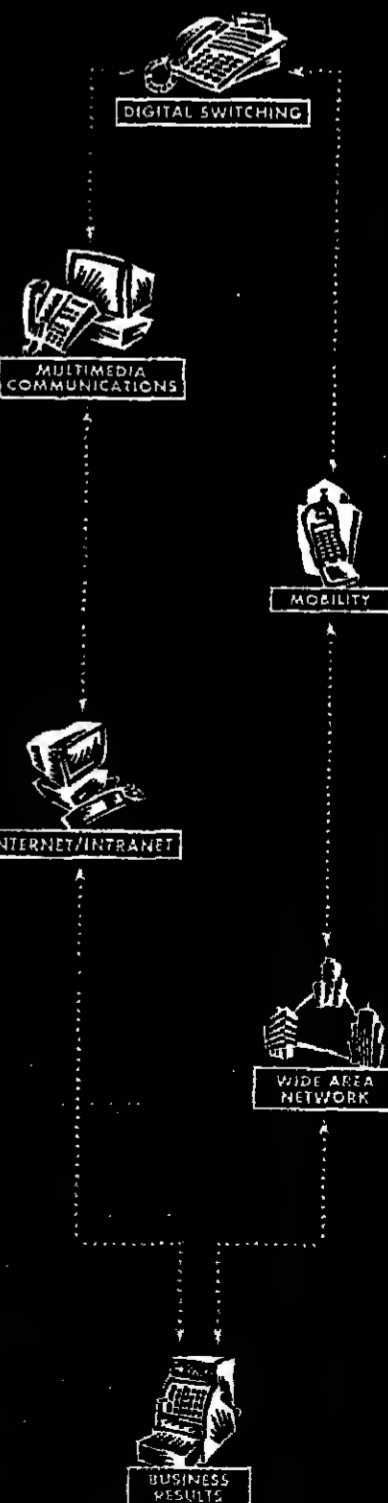
Do you have a Power Network?

As the next generation of integrated, multimedia communication technology, a Nortel Power Network can transform your existing mission critical business network with data, voice, image and video solutions that will delight your customers and dismay your competition.

+353 1706 3618 or www.nortel.com/6086

NORTEL
NORTHERN TELECOM

NORTEL
INTRODUCES
POWER
NETWORKS



CORDLESS TECHNOLOGIES • By Alice Macandrew

Some roles still remain

Cordless systems have largely been overtaken by cellular technology

The cordless telephone emerged in the mid-1980s as the must-have gizmo for those that wanted the benefits of mobility, albeit limited, without the cost of a cellular telephone, which was still out of most people's price range. It gave them their first taste of mobile communications by enabling them to make or receive calls within a radius of a couple of hundred metres from a base station in the home or office.

But the rapid development of cellular technology over the past 10 years has made the limitations of the cordless systems increasingly apparent.

Cordless technology has developed since the mid-1980s but the newer digital products introduced onto the market in the past five years – primarily CT2, Digital Enhanced Cordless Technology (DECT) and the personal bandypone system (PHS) – carry the same restrictions as the older analogue standards, namely a lack of mobility, a key factor in the late 1990s.

The range of the base stations is less than 500 metres, significantly lower than that of most cellular base stations. This means that a telephone company that wants to use a cordless application to provide mobility over a wider area needs to install base stations every hundred metres or so to provide sufficient coverage, making it expensive to implement – much more so than a cellular system.

Moreover, the increase in competition in the cellular market (there are now 45 cellular operators in western Europe) has meant that the price of cellular services to

the end-user has plummeted over the past 10 years. So much so that in the more mature markets such as Finland where more than 38 per cent of the population has a cellular telephone, the price of a cellular call is only marginally higher than that of a fixed-line call.

There is no doubt that cordless technology still has its place as the mobile phone in the home. According to telecoms consultants Frost & Sullivan, 3.3m cordless telephones were shipped to western Europe in 1991, a figure that is expected to rise to 22.3m by the end of 2001. Of these, the vast majority are for domestic use, 76.7 per cent in 1991 and about 93 per cent in 2001.

In the US, it is estimated that about 90 per cent of homes have cordless telephones.

French manufacturer Alcatel estimates that about 30 per cent of domestic cordless phones in Europe are DECT, a percentage that is expected to increase as it pushes CT2 and the analogue CT1 out of the market.

It is acknowledged that there is a place for cordless technology in the workplace, namely those organisations such as hospitals, shopping centres and factories where on-site mobility is essential but where there is little need for mobility off-site.

For these organisations, cordless systems based on DECT and CT2 are ideal.

The spectrum that they use is publicly available, meaning that companies can install and operate the system themselves without having to pay a third-party operator to do it for them. And although there is a big initial outlay, once the system is up and running there are very few costs and all calls on-site are "free".

But in the wider area, cordless technologies are seen as having very little future. Diane Trivett, consul-



The BT OnePhone, presently on trial in BT locations, incorporates both DECT and GSM mobile voice capabilities

tant at Dataquest, says: "Cordless is big in the local area and big in business. It will be successful in its place. But not outside of that."

However, in Japan, PHS cordless systems, launched in 1995, have been incredibly successful in the wider area. PHS subscribers now account for about 21.4 per cent of the total mobile market, according to figures provided by Morgan Stanley. Yet this is widely regarded as a one-off situation.

According to Andrew Wright of the consultancy Analysys, when PHS was introduced in Japan, there was an "enormous gap" between cellular prices and fixed prices so PHS filled the gap for people that couldn't afford cellular but wanted mobility. PHS base stations also have a higher capacity than those for cellular, so they could handle the high traffic requirements of the densely-populated Japanese cities.

The conditions and requirements in the European market are different. Any wide-area cordless systems that have been launched, such as the CT2 systems in France and the Netherlands, have by now either been reined in, or shut

down altogether due to lack of subscribers.

European operators instead are concentrating on so-called "convergent services" through which they plan to offer cellular customers near-fixed-line rates for calls made within a zone around their home or office, and standard priced calls from elsewhere.

The real use for cordless technologies in the future, outside of the home and office, is seen by most as being in the wireless local loop (WLL) where operators provide fixed telephone services at fixed prices to the home or office via a wireless, rather than a fixed, connection.

Modified versions of both PHS and DECT are increasingly being used in this context to provide wireline quality on a more cost-effective basis.

DECT was selected by South Africa's state-controlled carrier Telkom in July as part of what is thought to be the largest contract on record for WLL – worth almost R2bn – to provide fixed services to users in the country's biggest cities where existing wireline infrastructure is inadequate to meet demand.

MOBILE DATA • By Rod Newing

New systems on the way

Fresh standards and new 'information appliances' will remove barriers

Mobile data promises to connect anybody anywhere to any information instantly. At present, it is essentially a matter of moving small amounts of data slowly across a voice network. However, as new Internet-based applications are developed, specially designed data networks will carry large volumes of information, as well as voice communications.

Nevertheless, voice will continue to dominate mobile communications for some time to come. According to recent research carried out by Ovum, the independent telecommunications analysts, only 0.8 per cent of subscribers worldwide currently use data and this will only increase to 28 per cent by 2010.

However, independent research carried out by International Data Corporation on behalf of the Mobile Data Association points out that while voice revenue per subscriber is falling, data revenue per subscriber will increase, so it could account for as much as 50 per cent of profits.

The Ovum report, *Third Generation Mobile Systems*, points out that before the market can reach its potential, users will need to be educated about the availability, benefits, applicability and affordability of data services.

Alastair Trickett, data services business manager for Cellnet, a leading UK cellular provider that is 80 per cent owned by BT, does not believe the Ovum figures.

"Data on fixed lines has been more than 50 per cent of the total traffic since the 1980s, so the figures seem too low. They are right that

World mobile data market (forecast)		
Year	Subscribers (m)	Revenue (\$m)
1997	1.88	1.487
1998	4.33	2.531
1999	16.83	4.943
2000	25.96	7.705
2001	38.06	10.448
2002	52.02	14.527
2003	67.83	18.481
2004	87.83	24.086
2005	109.11	30.023
2010	209.57	65.023

Sources: Ovum

the biggest barrier to mobile data is awareness, but slow speed compared to fixed lines is also an issue, as is buying and getting support from a separate supplier for handset and PC."

These barriers will be removed by new standards offering more speed, together with a new generation of "information appliances" that act as terminals to connect users to their data much more easily.

First-generation analogue systems did not support data and the existing second generation digital networks currently support data transfer rates of 9,600 bits/second, although they can achieve 20,000-30,000 bits/second with compression, compared with 30,000-50,000 for a fixed line.

Existing systems are capable of being expanded to 64,000 bits/second using multiple lines, either dedicated or shared.

The third-generation systems being planned for introduction in 2002 will support 2 million bits/second, although Ovum expects it to be limited to 144,000 bits initially.

These will be based on the fragmented IMT-2000 global standard. This is being implemented in Europe as Universal Mobile Telephone System (UMTS) and Japanese Future Public Land Mobile Telephone System (FPLMTS) in Japan. There is a separate IS-95 standard, related to as Code Division Multiple Access (CDMA), in the US.

"The problem is retaining backward compatibility with our existing networks, otherwise we throw away our \$4bn investment and our customers throw away their phones," explains Dick

Lynch, Chief Technology Officer for Bell Atlantic Wireless, which has cellular systems in various parts of the world.

"With smaller, more powerful processors and software radios, we will be able to produce a single handset capable of supporting each of the main systems. International travellers are influential and affluent users, so they will pay more rather than carry multiple phones."

These third-generation systems will operate with existing fixed networks using cordless technology inside a building, with cellular systems in populated areas and with satellites in remote areas. The inclusion of satellite is important because Ovum estimates that by 2000 cellular systems will still cover only 15 per cent of the earth's land mass.

Third-generation systems promise a consistent quality of service and coverage for voice, data, graphical and video-based information, allowing multimedia Internet connections and videoconferencing. They will use the hand-held device mark-up language (HDM), a special language for displaying world wide web pages and Wireless Application Protocol for small messages on terminals with small screens.

Mobile data currently requires a separate handset and portable computer, although simple combined appliances, such as the Nokia 9000 Communicator, are available. Future mobile data will utilise a range of completely new multi-function terminals, many of which will support graphics and multimedia.

The Ovum report points out that "manufacturers must invest heavily in innovative handset designs. The focus is on improved product form and functionality, with increasing levels of terminal intelligence, although users will not tolerate a substantial increase in price."

"While many manufacturers tend to focus their development on differentiation through product functionality, it is still the basic issues, such as weight, display size and keyboard size that most concern users. Many users will have more than one terminal and will select the type of application and the context in which they want to use it."

As well as the network operators, network infrastructure equipment manufacturers and terminal manufacturers that are involved in voice communications, data is introducing content providers to provide mobile data users with the information they need. Ovum believes that they will provide a key differentiator, reducing customer terminations and increasing network usage. Many of these services will utilise packet data technologies that provide a constantly open link.

Barbara Roche, UK parliamentary under-secretary of state for small firms, recently summed up the next generation of mobile telephones in terms of data, not voice use. "They will provide high-speed access to a large number of entertainment and information services," she said. "These will include business services, virtual banking, on-line billing, full mobile office services, home shopping, real time video, videoconferencing, on-line entertainment and the wealth of material on the Internet."

Ken Blakeslee, director of business development for wireless terminals at Nortel, who is chairman of the Mobile Data Association, says: "Although these services require faster data transfer rates, other factors are more important to users. These are cost, speed of connection, variable speed, personalisation, reliability of coverage and variable tariffs."

PACKET TECHNOLOGY • By Rod Newing

Keeping the user in constant touch

The systems are appropriate for mobile workers such as field service engineers

The future of mobile data is likely to be increasingly based on the use of packet technology, which is specifically designed to carry data, not existing switched technology that was designed for voice communications.

"I see an almost packetised data business that will be based on Internet protocols, because of all the emerging applications that utilise them," says Dick Lynch, chief technology officer for Bell Atlantic Wireless. "Users will carry a device like a telephone, but with a keyboard and a wireless-enabled world wide web browser."

Packet-switched data networks differ from the current cellular systems in that they keep the mobile user in constant touch by using links that are always open. This is possible because data is broken up into a series of packets, just as it is on corporate computer networks and the Internet.

These packets are mixed with packets for other users while being transmitted to or received from the base station and being routed around the network. The mixing of packets allows thousands of users to share a single radio channel. Users have a constantly open connection and are charged on the basis of the volume of data transmitted or received.

In contrast, current cellular systems need a dedicated uninterrupted connection between the sender and the receiver in order to provide an interactive voice communication. Although designed for voice communications, this technology can carry data, but users have to pay for the time the connection is being set up and used.

There are about 30 public packet data networks around the world, as well as several private networks.



Dick Lynch: "Packet system is more cost-effective"

Eriksen's Mobitex system is used by 15 networks and Motorola's Radio Data Link Protocol (RD-LAP) is used by 10. These networks are utilised by application providers who develop industry-specific solutions operated through data terminals.

The applications are appropriate for markets that depend upon keeping fully mobile workers constantly connected to their offices: field service engineers and couriers – and services such as transportation, parcel delivery, fuel distribution, breakdown and recovery, IT services, utilities, emergency services and traffic control.

The arrival of new applications based on Internet technology will encourage the cellular service providers to add packet data to their existing switched data services. The Generalised Packet Radio Service (GPRS) should be available on Global Services for Mobile Communications (GSM) systems within 12 months and systems based on other standards shortly after that. It will integrate voice and data, allowing users to talk while transferring information in the background. GPRS will have the cost advantage and convenience of providing a single terminal for voice and data on a single network.

Packet data is embraced in the IMT-2000 global standard for third-generation mobile systems due in 2001. They will transfer high volumes of data and will replace GSM and other second-generation systems.

GPRS will be an important enabler for third-generation systems," says Ken Blakeslee, director of business development for wireless terminals at Nortel, who is chairman of the Mobile Data Association. "It will help to move the market and applications by providing users with personalised services, starting with short text and compact graphics."

Elaine Axby, senior consultant with telecommunications consultancy Schema, says: "Specific skills are required to sell in the packet data market and you need good partnerships. The existing packet data operators sell solutions with a high level of consultancy, but the cellular companies are not used to selling solutions. The key is to understand that the solution is more individual and not as homogeneous as the cellular operators have realised in the past."

The new breed of Internet-based applications will move packet data into the white-collar area, providing constant access to Internet and corporate intranet.

Other new applications will include business services, virtual banking, on-line billing, full mobile office services, home shopping, videoconferencing and on-line entertainment.

Many of the new wave of Internet applications will embrace Internet "push" technology that currently sends important information to the user's desktop. It will soon be delivered direct to users, wherever they are. "The user will be logged on all the time, which will encourage them to move from traditional switched systems," says Mr Lynch. "Packet system is more cost-effective for us because we can provide service to 1,000 customers on a single channel, instead of one, so we use less of our radio resources. If we were circuit-switched we couldn't accommodate that number."

StarTAC ALWAYS WITH YOU.

MOTOROLA

For more information about this and other Motorola products or for your nearest stockist call 0800 555555.

When you never thought possible.

صكنا من الادل

PAGING By Andrew Emmerson

Battle royal between two protocols

Ermes versus Flex: the stakes are high as networks are replaced and created all over Europe

History has a habit of repeating itself - but in an unpredictable way. So whereas the European-adopted GSM system for digital mobile phones has been an outstanding success by any measure, its partner protocol for digital paging has scored

nothing like the same success. There are even voices suggesting it should be laid to rest in favour of a scheme devised by US mobile radio giant Motorola.

To "good Europeans" such a sentiment sounds like heresy: having developed a truly indigenous pan-European standard, why on earth abandon it for a proprietary standard from the US?

The reason is simple: although developed specifically for a cross-border European paging service, the commercial success of the Ermes (Enhanced - formerly European - Radio Message-

ing System) protocol, has proved unspectacular and this has been a big disappointment to those who believed a single technical specification was the best solution for paging users, operators and manufacturers in Europe.

The result now is a battle royal between two extremely well-devised technical specifications, one European and free for all, the other American and proprietary.

Trivial the current skirmish is not and the stakes are high. Paging networks are being replaced - or created from scratch - all over Europe. Brand new systems are springing up throughout the new republics of eastern Europe, while in western Europe the old analogue systems are obsolete and overloaded - the user base here grew 22 per cent in 1996 alone.

The need for replacement is vital, as Karl Meylan, product manager paging for NEC Europe explains. "Existing paging networks are significantly overloaded in most of Europe; they were designed and installed 20 years ago or more and they have reached the end of their economic life."

"New digital networks can provide this much-needed extra capacity, while higher transmission speeds will allow users to receive longer, more complex messages with data and graphics too. New technology will also allow paging operators to introduce dynamic new user features such as two-way paging (acknowledging receipt of message) and international roaming (allowing you to be paged anywhere in Europe)," he says.

Two rival techniques are proposed for fulfilling all this reconstruction. On one hand the "good Europeans" adhere tenaciously to the Ermes doctrine, while the pragmatists believe their interests will be better served by aligning with the global Flex protocol developed by Motorola.

Mr Meylan continues: "This indecision over protocols is extremely damaging and it is certainly not in the interest either of users or of the industry. As manufacturers of both types of product, Ermes and Flex, we can take an independent stance. We are happy to make whatever our customers require and at the end of the day we will go



Karl Meylan: Existing paging networks are significantly overloaded in most of Europe

with the flow. That said, our own opinion is that Ermes represents a better choice for the European paging industry but we have no axe to grind in the matter."

The key advantage of Ermes, he adds, is that it is an open standard and, unlike Flex, no licence is required to produce Ermes pagers. Operators and manufacturers can participate freely in the continuing development of the Ermes protocol and the paging environment in general.

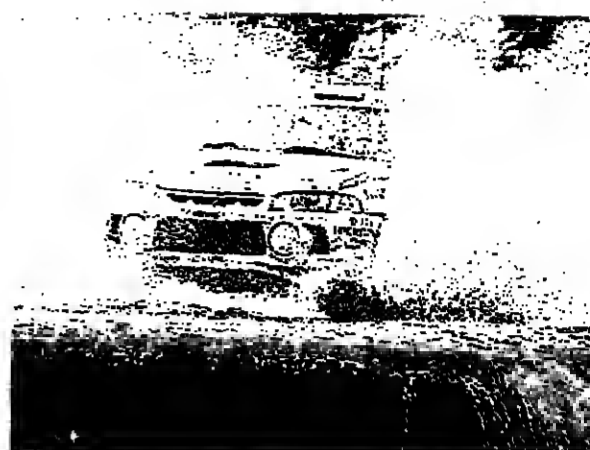
Moreover, having a harmonised pan-European technical specification and the

same radio frequencies used in each territory means you can make one single product, opening up the prospect of genuine economies of scale. The price comes down, sales go up and everyone benefits.

This Ermes-orientated vision of "the paging system of the future that will soon link all Europe", as one Swiss manufacturer calls it, is an intriguing scenario but one that is unlikely to come to pass if this year's conference of paging operators in Europe is any indication.

The European Public Paging Association conference vote showed conclusively that operators wanted the same freedom to choose standards as their counterparts enjoyed in the rest of the world. No fewer than 74 per cent of all operators asserted that "individual operators should be allowed to choose", with delegates from southern and eastern Europe voting 92 per cent and 75 per cent respectively for freedom of choice.

Chris Bullick, marketing director for Motorola's European Paging Subscriber Division, says: "What's really happened is that the freedom of choice movement has



Motorola, official communications sponsor of the 1997 Network Q RAC Rally will use pagers to supply an innovative information service which will give instant updates of the latest rallying action to participants and spectators

now gained sufficient critical mass in Europe and there are no longer strong political obstacles to adopting Flex. During the next year we expect to see three or four leading west European operators using Flex and we also envisage some existing proponents of Ermes will consider mixing Flex and Ermes together in their networks.

The momentum for new services is now such that the industry will lobby energetically to use whichever technology meets its needs best."

Whereas regulators were previously leery of Flex, he adds, they now believe operators should have the freedom to install whatever

serves their customers best. Flex and Ermes are not mutually exclusive; while merging the two systems is technically not simple, neither is it impossible, he declares.

The eventual outcome is not yet clear. For all the elegance and political attraction of Ermes, the system has a mere 900,000 users globally, just over half in Europe. On the other hand, more than 30m Flex pagers (not all high-speed) have been shipped worldwide already, a dominance which would be hard to overturn. The signs point to a repeat of history, that of VHS and Betamax.

DEVELOPMENTS By Alan Simpson

Powering ahead in Europe

Eutels research indicates that the number of pagers in Europe could triple by 2001

Perhaps one of the puzzling areas of telecommunications is the continuing growth of paging systems - despite the arrival of the all-pervading mobile phone. By rights, the message pager should be history, consigned to museums alongside the wind-up telephone and telex machine.

But the message pager is not only thriving, it is in growth mode. Mobile phones have made consumers more aware of the need to keep in touch, and paging provides a low-cost method of communications.

Chris Bullick, managing director of Motorola EFSO, says: "There is absolutely no evidence in Europe that cellular frenzy is having a negative impact on paging. In an age where information overload rules, the pager offers some respite. It can, perhaps, be seen as e-mail on the move. Users can access their messages when convenient and not when the caller necessarily demands."

Basically, a paging system is a radio receiver permanently tuned to a single station. When it is manufactured, it is given an individual coded number which is built into the pager. Originally developed for short-range (less than a mile) applications, the technology has developed for wide area networks.

Traditional pagers can fall into three main categories: those which emit a single tone; those which emit a range of tones with each tone signifying a particular predefined message such as "Ring the office"; and those which display an alphanumeric message.

There were more than 1.25m pagers in use in the UK at the end of last year. Paging, says Motorola, is one of the most cost-effective and widely-used forms of radio communications, with more than 110m pagers in use globally. Europe is one of the fastest-growing regions in the paging world, driven principally by the "Calling Party Pays" initiative.

According to the European Research Body Eutels, the number of pagers in Europe could triple by the year 2001.

The key finding of a recent Eutels survey was that paging in Europe has a current penetration level of 1.5 per cent which is very low when compared to the US (15.8 per cent) or Asia (1.1 per cent). The pager, it seems, has the potential of becoming as common as a wrist-watch.

The network operator offers a selection of business pagers which can receive messages of up to 240 characters, with plenty of memory for callers to leave message after message. In many cases, the message pager conveys sufficient information to remove the need for a response, saving the company both time and money. Value-added services available include number sequencing, message retrieval, itemised billing, group call and direct access, and more recently, USA Connect.

But for the latest development in the paging world, Calling Party Pays (CPP) is all the rage, with growth nudging 40 per cent a year in the UK and much of Europe. Here the pager displays a code which can translate into a message such as 777 (Good luck), 925 (I'm at work), or 121 (Dinner for two). The big difference is that once the CPP pager has been purchased, there are no connection charges, rental charges or tariffs.

Calls made from any consumer payphone are charged at a premium rate, except for calls made from payphones, mobiles and non-BT networks which are charged at prevailing rates.

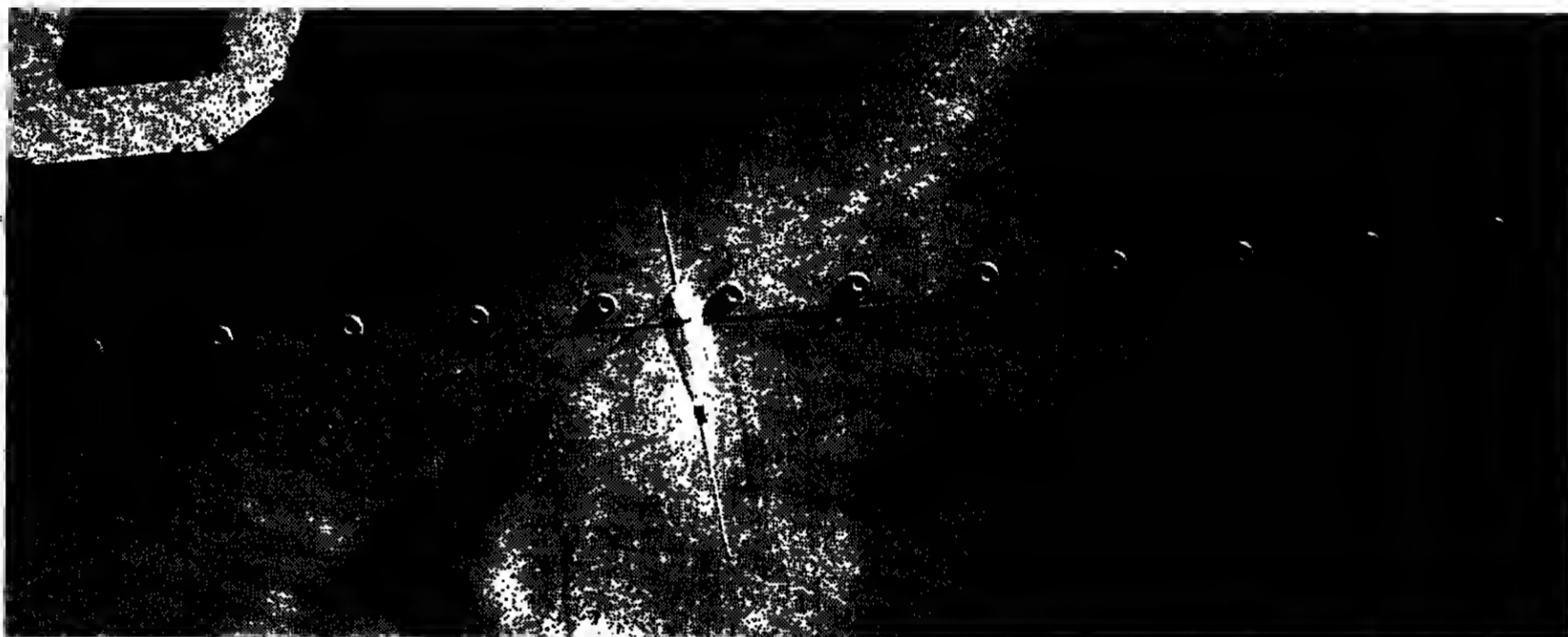
Manufacturers are focusing on code communications with a range of colourful models targeted at this generally youthful marketplace. This month Vodafone Paging launches Zap! Direct which will receive low-cost messages from a fixed PC running Windows via a modem and telephone line. The new unit extends the Vodafone Paging range of VodaZap models. Also available, on the PageOne network, is the new Motorola Instinct Plus, an entry-level numeric pager which is designed to appeal to 12-16-year-olds. With each pager sold, PageOne provides five free rechargeable phone cards, each allowing two free calls to a pager.

Meanwhile, BT's EasyReach messaging service is targeting students. The sales pitch includes the price (about £30 to buy), and a feature which enables the pagers to be set to vibrate so as not to disturb other people nearby.

Motorola UK Paging is already issuing an upbeat message for the Christmas paging market. Paul Hughes, UK business manager, predicts a record year, with new opportunities opening up. The company's range of high capacity Flex paging architecture includes the world's first two-way pagers and voice pagers, as well as products that offer guaranteed message delivery. At present, these facilities are only available in the US pending the allocation of a suitable network spectrum in Europe and agreement on standards.

The paging revolution - far from running out of steam - is in turbo response mode.

Freephone. An aircraft carrier currently used for fishing trips.



Freephone. How many people realise its full potential? In reality, few things work as hard to grow your business. We should know. It was AT&T who originally invented freephone 30 years ago and who, through constant refinement, made it the uniquely reliable service it is today. Indeed, AT&T now handle well over 20 billion such calls a year. Of course, if your present supplier has neglected to show you just how effective freephone can be, you can't be expected to know what it can do. But thankfully, you're now free to choose a supplier with new ideas. Someone who will sit down with you and work out how freephone can give your business an edge. Switching to AT&T is easy. You can even take your existing freephone number with you. So call us, anytime. We'll show you how AT&T FreePhone Services can really help you attack your business targets.

Call AT&T on 0800 064 8000

or visit our web site at www.att.co.uk

BUSINESS JUST GOT AN EDGE.

©1997 AT&T. In the UK, AT&T FreePhone Services are supplied by AT&T Communications (UK) LTD.



PROFILE Bouygues Telecom

An effective performer

While Bouygues Telecom may be the third, and so far the last, operator to enter the French mobile telecommunications market, it is certainly proving to be one of the more effective performers. Its innovative tariff offering is proving a strong marketing formula.

A speedy roll-out of the FF23bn network investment is already putting Bouygues ahead of the targets set in the third mobile licence it was awarded by the French government in 1994.

This should give the network a better chance to compete against its two rivals.

"Very quickly after the launch we have seen the speed at which the market is accelerating. So we have decided to accelerate the deployment of our coverage. Our licence requires us to cover 87 per cent of the population by the end of 2005," said a senior Bouygues executive.

"But we will have covered more than 90 per cent of the population by the middle of 1999. We will accelerate our deployment by 5% years. Because we go very quickly we have quicker cash flow and that compensates for the enormous start-up costs," he said.

Because of its later launch, Bouygues remains well behind its two rivals - France Telecom's Iteeris network and the Cc Générale des Eaux-led Cegotel consortium with SFR.

In October, Iteeris could count 2,316,000 subscribers and SFR 1,518,000, while Bouygues had about 300,000.

The French authorities chose the DCS-1800 technology for the third network. This offers smaller cells than the GSM-900 used by the first two networks. One aim was to improve coverage in the large towns, where the DCS-1800 is a more effective

communication means. Bouygues won the 15-year licence in October 1994 and with it a four-year exclusivity for the DCS-1800 technology in the largest towns, such as Paris, Lyons, Marseilles, Lille and Nice.

Bouygues' main industry partners in the bid were Cable and Wireless and German utility Veba.

Director-general Patrick Leleu was rapidly appointed and built up his team. The initial 90 staff had grown to 1,100 at the end of 1996 and is expected to reach 2,700 at the end of this year.

"Bouygues has probably created more jobs than any other company in the last two years," the executive said.

Bouygues' aim has been to turn the mobile telephone from a product that was used by a privileged few into a product with mass market appeal. Bouygues focused closely on providing the market with what it wanted and made the technicians fulfil that aim, he said.

The result of this combination was an innovative tariff system of tariffs. In other words, a subscriber decides at the onset to pay a fixed amount for monthly use of one, two or three hours minimum. The effect was to undercut the two more established rivals with a competitive offer.

It was Bouygues which created this package and innovation and we continue to innovate. As a third operator it is necessary to innovate. The result is that we have a lot of people copying us. At the same time we have given a boost to the market, the Bouygues executive said.

"The mobile telecom market was behind others in Europe and has still not caught up the rate of penetration in Germany, the UK, Italy or the countries in the north of Europe. The overall market penetration rate in France is 6-6.5 per cent, while in

the UK it is 14-15 per cent," he said.

The impact of the Bouygues arrival has been to boost the market, an effect which has been emphasised by Bouygues' own decision to speed up the roll-out of its network.

By the end of last year, subscribers totalled 92,000 and the company has already exceeded its end 1997 target of 300,000.

"We think that we are going to exceed 400,000 by the end of the year," the executive said.

Bouygues believes it has the most dense network to the world. It is building a network with a capacity equivalent to "a four-lane motorway in both directions". Roll-out started in Paris, then Lyons, the Cote d'Azur and Normandy, and will move to Lille by the end of the year.

It will not be long before the Bouygues DCS-1800 network, focused on big towns, catches up with the coverage of the two GSM networks. Cheaper prices have been compensation for its more limited coverage.

"Today, that is the case. But soon that won't be true because we will have 90 per cent of the population covered and it will be no different to the others," the Bouygues executive said.

This year has seen the entry of Telecom Italia as a new shareholder, alongside Bouygues and Decaux in the holding which has a 50 per cent stake in the Bouygues Telecom operator. Decaux is a French company which runs the large advertising billboards alongside roads and motorways.

C&W holds a 20 per cent stake, and its former partner Veba, 17.5 per cent. The split-up of their Vebacom telecom venture has had little impact on their ownership of Bouygues Telecom. Smaller shareholders are Banque Nationale de Paris with 3.5 per cent, and Paribas with 3 per cent.

The shareholders

contribute in different ways. Bouygues provides management of the mobile venture. C&W and Veba both operate their own DCS-1800 networks and Bouygues Telecom has "taken the best of each and constructed our own network differently", the executive said.

C&W's Martin Farrimond, responsible for the investment, said C&W had contributed senior executives and skill-sharing. From Bouygues, C&W has learned a lot about advanced customer loyalty schemes. These are more sophisticated than simple points schemes, he said.

Marketing and sales are key to this mobile operator's early success, as is customer care. Subscriptions are sold in all the leading stores and supermarkets, as well as more specialised department stores such as FNAC and Virgin.

On pricing Bouygues has kept its tariffs unchanged over the past 18 months since launch and these remain considerably lower than those of its two rivals. France Telecom and Cegotel are both expected to react to the threat from the third operator and offer cuts in their tariffs.

But despite its low tariffs, Bouygues sees itself winning its clients from among those who are new to mobile telephony. A company executive said:

"When you see the growth of the market, you note that this explosion is due to new clients and not from moves by older customers."

Bouygues Telecom expects to break even in 2001 as part of its aim to lift sales to FF210bn from this year's forecast of FF190bn sales and unspecified losses. With a government review of any fourth operator due only in 1998 or 1999, it will not face another competitor in the near future.

Nigel Tutt

KEY DEVELOPMENTS IN EUROPE • By Matthew Slater

Crucial months ahead

Competition is intensifying on several fronts - and customers are benefiting

The coming months could be crucial for the continuation of Europe's mobile telecoms success story. Not only is the debate on the replacement for the Global Standard for Mobile Communications (GSM) coming to a climax, but the battle for market share in Europe looks set to continue with new entrants, new markets and new products.

While manufacturers and service providers compete for their slice of this lucrative market, and customers enjoy the fruits of competition and technological progress, industry regulators are considering the standard for the Universal Mobile Telecommunications System (UMTS), the so-called "third generation" of mobile telephony.

Philip Springuel, a consultant for telecoms experts OTT, said: "The choice of standards for the third generation is possibly the biggest challenge facing the sector in Europe. The European Telecommunications Standards Institute (ETSI) is supposed to give its decision at the end of this year. I do not think that they will be able to do it by then. I expect a compromise standard in early January."

The debate has focused on two rival technologies: wideband CDMA (Code Division Multiple Access) versus a combination of two existing systems: CDMA and TDMA (Time Division Multiple Access).

The battle lines appeared to have been irrevocably drawn two months ago when Nortel, Alcatel, Siemens and Intel joined forces to promote the CDMA-TDMA standard. This was a clear challenge to Ericsson, the market leader, and Nokia, who favour wideband CDMA, which has Japanese support.

The European Commission has been vocal in its calls for a single standard, but has been careful not to become too involved in the debate.

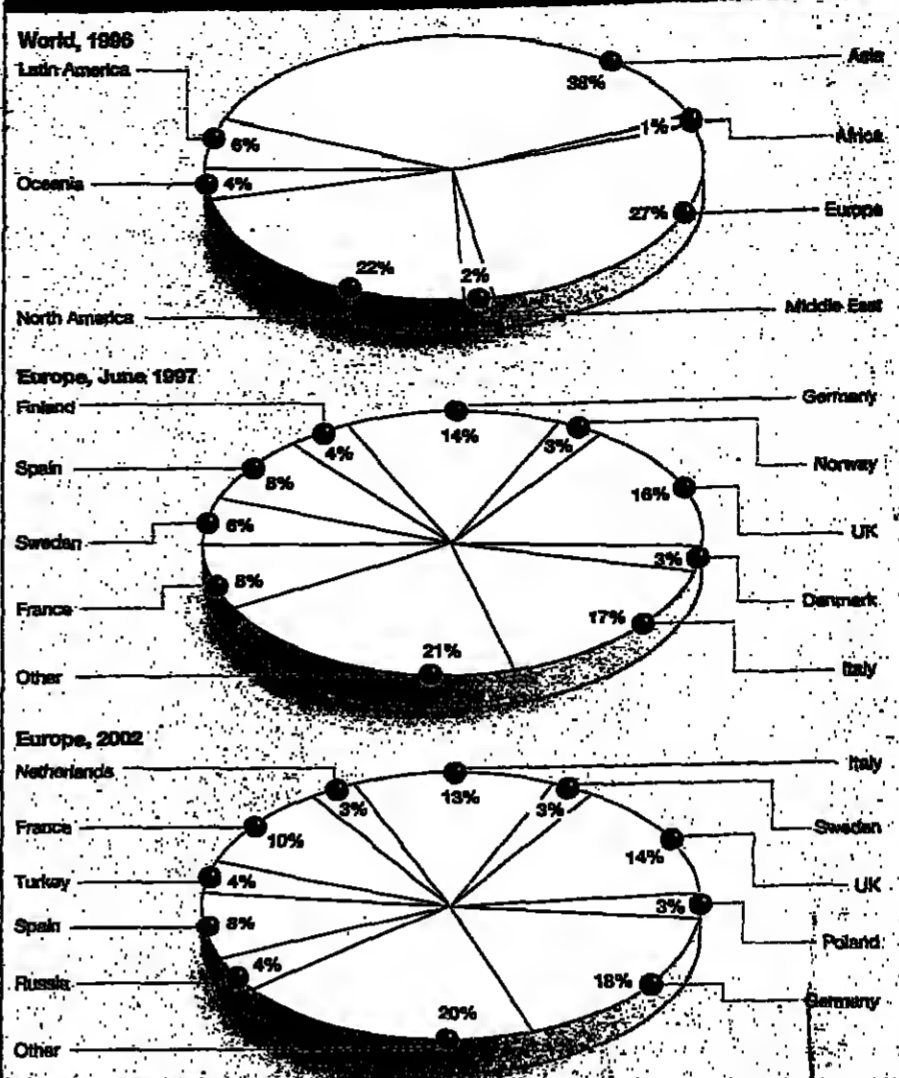
"On the issue of standardisation for UMTS, the commission policy is that the best place for those decisions is at the industry-ETSI level, and that the most important factor is interoperability between possibly rival systems," a commission spokesman said.

The issue is undoubtedly important in the medium to long term, but has little impact on the short term. As Mr Springuel said: "It is fun to talk about third generation, because it is far easier than trying to sell your second generation product right now. The real battle is still for sales of GSM and CDMA, and that is Europe versus Japan versus US."

This heated competition is clearly good news for the consumer. For an indication of how the European market will develop one need look no further than the UK.

Alex Nourouzi, a telecoms specialist at Ovum, a London-based consultancy, said: "I expect real movements on

Wireless subscribers



pricing from both Cellnet and Vodafone before Christmas. They have been content to allow a large price differential between themselves and Orange and Mercury, because of their superior coverage and customer base, but they just cannot do that any more."

"Cellnet really is a sleeping giant. They still have analogue subscribers, but their churn rates (the number of subscriptions not renewed) are high. Christmas is a very important time for them."

While growth rates in the British market have slowed, there are opportunities elsewhere in Europe for rapid growth and big profits. Mr Springuel thinks Spain will be the most exciting market of the next year.

"The overall economic situation is improving, telephone liberalisation will be achieved in time for the EU target of January 1 1998, and mobile penetration is small at the moment."

"The other great factor is the Mediterranean culture of the status symbol. Just as in Italy, the mobile phone will be a 'must-have' Mr Springuel said.

The Spanish market and the tempting east European markets of Poland, the Czech Republic and Hungary, will also give an important indication of another development in European mobile telephony. Manufacturers who have until now underperformed in this sector, particularly the Asian electronics giants, will be competing much more aggressively now.

Recognisable brands like Panasonic and Toshiba will pose a greater challenge to

the Nokias and Ericssons in the future. The European brands will still have a cachet value, similar to German cars, but the Japanese phones will be cheaper," Mr Springuel said.

Competition between manufacturers highlights their increasing importance to the growth of the European market. As Mr Springuel said: "Previously, the service provider was the most important choice to make. Now companies like Alcatel are selling their phones in pretty colours and simply telling the consumer where to buy the phone. The manufacturers are driving penetration growth now, not the operators."

If the competition between manufacturers is healthy, the competition for spectrum is less so. The allocation of frequencies to new entrants continues to be a contentious issue.

A dispute in Italy, involving Omnitel Pronto and the European Commission on one side, and the Italian government and Telecom Italia on the other, highlights the difficulties faced by new entrants throughout Europe. The European Commission is threatening to withhold approval for an alliance between Telecom Italia, AT&T and Unisource unless Omnitel Pronto is fully compensated as agreed in a 1996 settlement. Omnitel has not been given promised DCS 1800 frequencies, and still awaits a 25 per cent cut in interconnection tariffs to the fixed network from Telecom Italia.

"The Commission should not only warn Italy to put

the earlier agreement into effect, but also find some new compensation to replace the measures which have lost their compensation value," a commission source said.

While the Italian example is extreme, problems with spectrum allocation are repeated throughout Europe. Mr Nourouzi said: "Nearly half the member states will not make the EU deadline for having at least one competitor operating at the 1800 frequency. Countries, with competitors operating at both 900 and 1800 are few and far between. At the moment it is probably only the UK, although Switzerland and Portugal are very close."

The underlying issue to the problem of spectrum allocation is competition. Or, how competition can best be stimulated. Mr Springuel is critical of the Commission's approach.

"Simply creating competition artificially will please nobody, especially the new entrants who are faced with the dominant incumbents."

"The Commission has to start allocating both 900 and 1800 to new entrants. Only that way will the price of dual-band handsets come down."

"The real worry is that new technological advances will be hindered by innovative companies going to the wall. The convergence of different IT technologies is an exciting prospect for the future, but I'm concerned that adverse market realities will slow their development."

"The Commission has to decide who is more important, the customer or the EU's image," he said.

PROFILE Orange

Convergence issue looms

Orange has this year established itself as Britain's leading cellular operator but must now come to terms with the issue of convergence between fixed and cellular services.

Following a slow start after its launch in 1994, Orange's performance took off in 1996 and swept the company to a successful stock market flotation early last year. But now the company must decide how to position itself for the emergence of convergent services, the coming trend in the UK telecoms market which could lead to a merger between the historically separate areas of fixed and mobile services.

Orange faces the threat that its three rivals in the UK cellular market are better positioned to take advantage of the move towards fixed-mobile services:

● Cellnet has the boost from its link to BT, which holds a 60 per cent stake in the cellular operator, and is eager for the regulatory approval that would allow



Orange advertising: the company's performance took off in 1996

it to take over Cellnet and other combined services.

● One-2-Go has its parents on its side: Cable & Wireless and US West are investors in the UK's two leading cable television operators, Cable & Wireless Communications and Telewest.

● Vodafone has no links of its own but is in talks about possible marketing alliances with a number of fixed network operators, including Energia, the long-distance carrier that is owned by the National Grid.

Orange argues that such links to a fixed network operator can act as a hindrance and points to other European countries where fixed carriers, which have previously split off

their mobile businesses are now eager to re-integrate them. In all cases, Orange argues, it is the fixed carrier that is desperate to get back together with the more dynamic mobile business.

Orange seems convinced it can offer fixed-type services over its existing cellular network. It has conducted trials on its network of a "home zone" that would allow customers to make cheap calls on their cellular phones in a specific zone around their homes or offices.

Its current policy of increasing the capacity of its network is partly intended to handle the higher volume of calls that would result from offering fixed tariff-type services.

A separate pointer as to how Orange is positioning itself for the convergent market is its announcement in October of a price cut on certain international calls of as much as 50 per cent to bring its rates into line with those charged on the fixed network. The other three international carriers have maintained their high-priced rates.

While Orange's new international rates do not undercut many fixed-network resellers - or possibly BT itself, once its various volume-discount schemes are taken into account - the accompanying marketing campaign was intended to establish with Orange users that there are occasions when a cellular phone can be used as a substitute for a fixed phone.

It is likely that the operator will come out with similar ideas in the future to woo its customers away from the fixed network. Orange will be hoping that enough of them take the hint.

Richard Hardford

This announcement appears as a matter of record only

CONNEX
GSM

MobiFon S.A.
a company operated by

TIW

Telecom International Wireline
Societas RL

and

AIRTOUCH
Communications

USD 190,000,000

Senior and subordinated long term loans to finance
a national GSM network in Romania

LENDER OF RECORD

European Bank
for Reconstruction and Development

FUNDS PROVIDED BY

Creditanstalt-Bankverein De Nationale Investeringsbank N.V.
ABN AMRO Bank N.V. CIBC Wood Gundy plc Union Bank of Switzerland
Dresdner Kleinwort Benson RZB-Austria

PARALLEL LENDERS

Export Development Corporation Nordic Investment Bank

AGENT

Union Bank of Switzerland

WORKING CAPITAL FACILITY PROVIDED BY

ABN AMRO Romania S.A.

ADVISOR TO THE BORROWER

Creditanstalt Investment Bank

ARRANGER



European Bank
for Reconstruction and Development

October 1997

مصارف الامم المتحدة

UK MARKETING • By Steve Cosell

Competition is set to intensify

Operators are spending heavily on advertising to attract new subscribers

With cellular penetration in the UK lagging behind that of many other European countries - according to European Union figures* the UK has 12 per cent penetration compared to about 30 per cent in the Nordic countries - UK operators are using big budget advertising both to build brand identity and promote specific services.

According to Andrew Colinson, Cellnet's brand development manager: "If you look at the mobile industry you will see the market is changing and giving customers a preference has become more important." And because telecoms watchdog Ofcom recently secured number portability for mobile users - enabling customers to keep the same phone number in future, if they change operators - the competition is set to get tougher.

Trying to attract new users, Cellnet has recently launched a £10m advertising

campaign to support "Social Life", a new low-user analogue tariff. The scheme is intended to reinforce the company's 5p a minute off-peak tariff, said to start when a user's social life does - after 8pm and at weekends.

One-2-One is currently working hard both to build brand identity and sell specific services. This month, the company launched its biggest advertising campaign, featuring celebrities such as supermodel Kate Moss and former Beirut hostage John McCarthy, although it refused to put a figure on the venture.

This latest campaign follows a £2m promotion supporting the introduction of the "Up 2 You" tariff, said to be the first digital "pay-as-you-go" service in Britain.

The company has also extended a promotion allowing two handsets to be connected to one account, and business users are being tempted by the offer of \$50 if they join One-2-One from another UK service provider.

Orange, which is traditionally seen as having the strongest brand identity, has recently launched a new "lifestyle" campaign valued at £12m. The advertisements



A still from Orange's £12m "lifestyle" advertising campaign

are said to show how the company understands the needs of its customers, with the focus on four different ways to join the service.

The campaign consists of five advertisements, starting with a general theme then four that focus specifically on different tariff schemes. Along with the campaign, Orange has launched a new tariff, "Just Talk", aimed at attracting customers who do not want to commit themselves to a minimum term contract, monthly charges and credit checks.

Other "pre-pay" schemes are being offered by the other cellular operators in a move to attract customers

who have not owned a mobile phone for these reasons.

Orange has also recently used a £1m campaign to attract business users - the opposite end of the market from the sector "Just Talk" is aimed at. The company is pushing group services, such as conference calling and text messaging, for the business user, with one advertisement showing a fictional customer winning a business advantage through the use of a mobile phone.

Vodafone, currently the UK's biggest cellular operator, has recently launched a big advertising campaign to reinforce the company's

rebranding, which saw the it adopting a new logo based on quotation marks.

The strapline for the campaign, which includes TV, poster, print and direct marketing, is: "The world is Vodafone". According to reports in the UK marketing press, the campaign is costing about £16m.

The company has also launched a collection of new tariffs, with two new digital tariffs launched in September targeting the medium and high end of the market, preceded by two new analogue tariffs designed for the low-user market. "These new tariffs address different segments of both the business and consumer markets," commented David Channing Williams, Vodafone's managing director.

The services providers have one other big problem to resolve: that of "churning." After signing people up, they need to keep them.

According to a report in *FT Telecoms World*, during one month in 1996, of 90,000 gross connections to the Cellnet network, only 18,000 new additions were made to the customer base; 72,000 were later disconnected.

Part of the problem lies with the operator. According

to recent information from Anderson Consulting, churn in Europe is at about 25 per cent, and "churn frequently results from the way operators go to market".

"Often, for example, dealers actively encourage churn because they receive incentives for handset sales or customer subscriptions rather than for customer retention and value-added service."

In order to counter this, reward programmes seem to be in favour. Cellnet, for example, rewards users with extended airtime depending on the volume of calls made. Orange rewards users by giving them points that are redeemable against products and activities, ranging from cinema trips and camera film to white water rafting and parasailing.

The future of the mobile market also seems to be in cross-marketing. Orange has teamed up with NatWest bank to produce a Visa card, while Cellnet has teamed up with Barclays to promote remote telephone banking.

**Research on Advanced Communications in Europe (RACE) newspaper, September 15 1997*

The author is editor of the *FT Communications Newsletter*



The One-2-One Novatel 2000: hands-free voice dialling

PROFILE



One-2-One signed up 108,000 new customers in three months

Staging a significant recovery

One-2-One, the UK's smallest cellular operator which is jointly owned by Cable & Wireless and US West, has staged a significant recovery this year from the depths of underachievement in 1996. It is now starting to make up lost ground on its larger rivals; Cellnet, Vodafone and Orange.

In the first nine months of this year, One-2-One signed up 263,000 new customers, second only to Orange with 285,000 new customers but well ahead of long-established competitors Vodafone (215,000 new customers) and Cellnet (154,000 new customers).

Such a result was unthinkable a year ago when the company had attracted a mere 50,400 new customers over the same period. And One-2-One could be performing even better in the future if the past quarter is anything to go by.

In the past three months it signed up 108,000 new customers - more than 40 per cent of its total in the year so far - and roundly beat its three rivals. In the three summer months of last year it added a mere 20,400 customers.

One-2-One now has a total of 808,000 customers, compared with Orange's 1,070,000 and the longer-established Cellnet and Vodafone with 2,840,000 and 3,018,000 customers, respectively.

The company's turnaround coincided with the appointment in spring last year of Jan Peters as managing director.

Ms Peters, a former president of US West Media Group's cellular interests in the US, revitalised One-2-One with a new marketing campaign, reworked tariff packages and an expansion of its distribution strategy so that its service was on sale in more retail outlets.

Crucially, Ms Peters also forged ahead with One-2-One's policy of building out its network to match the geographic reach of its rivals.

One-2-One had made the mistake of only making its

service available in the south-east of England after its launch in September 1995. Even if customers did not make calls much outside this part of the country they wanted to feel they could if the occasion arose. One-2-One suffered as a result.

Also, the operator mistakenly pitched itself at the bottom of the market with a tariff package that offered unlimited free, local off-peak calls. Subscribers took up the offer enthusiastically - much to One-2-One's cost.

By pitching to the bottom of the market, One-2-One found itself saddled with many customers who did not pay their bills and ended up deserting its network. One-2-One has since scaled back its free calls offer and spent much of last year dealing with the effects of customers churning off its network.

It was stuck in a vicious circle - the volume of calls generated by its free calls offer congested the network to the point where subscribers found it hard to actually make calls so jammed was the network.

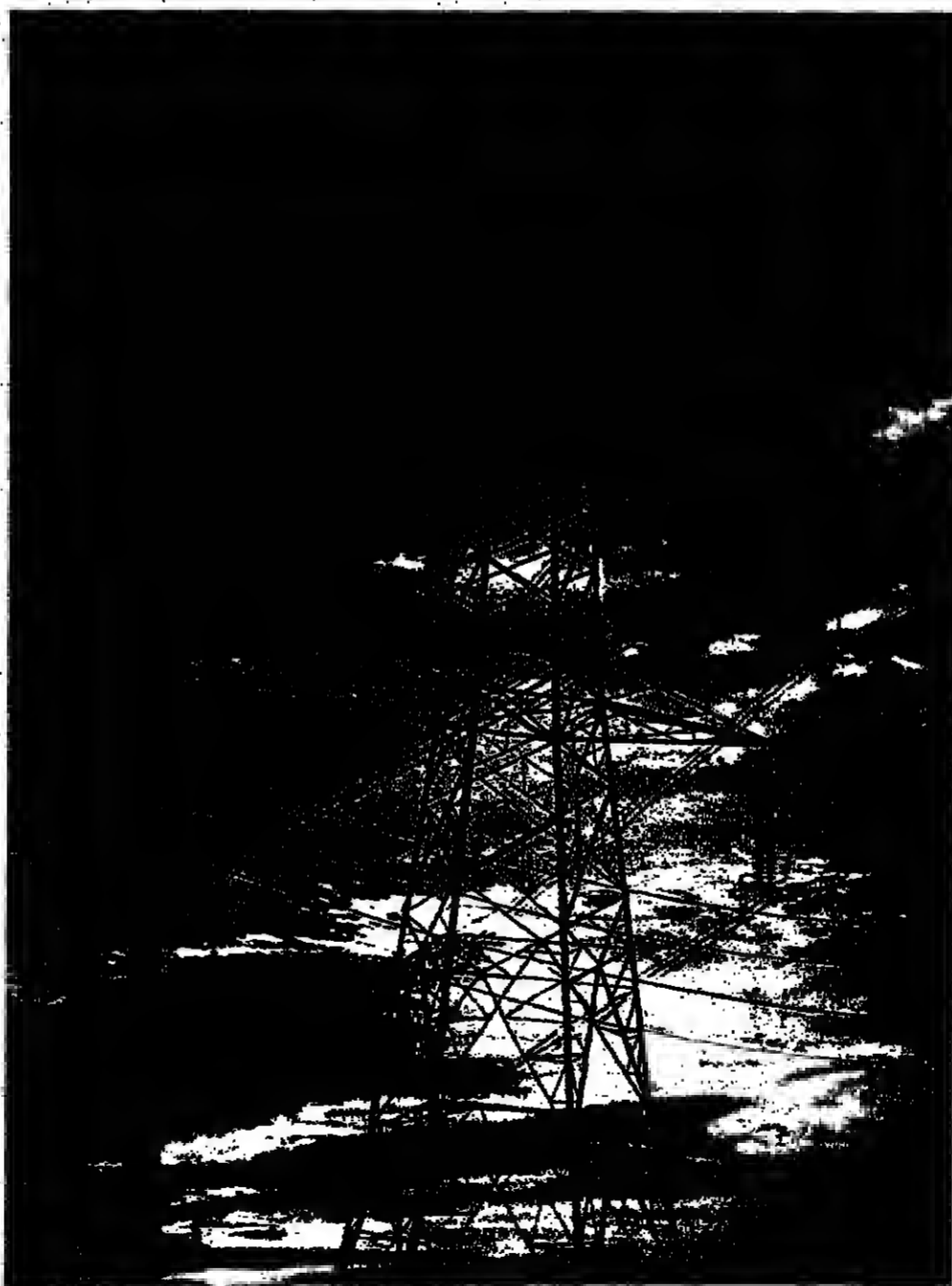
In turn, this necessitated more investment in the network to increase capacity rather than building it out to other parts of the country. The congestion problem eventually started putting off customers.

A year on, the operator has been turned around, although Ms Peters has not stuck around to see the results. At the start of October she left to become chief executive officer of MediaOne, the US cable television operator which is part of US West.

A sure sign that the operator's recovery was complete came in July from an unexpected source. Chris Gent, chief executive of the Vodafone Group which has previously seen its main competitive threat as Orange, predicted Vodafone's fiercest opposition in the future would come from One-2-One.

Richard Handford

Energis poles apart from BT.



Unlike some others, we use state of the art technology across our entire network - one that runs along

pylons and the tube to cover the nation. This makes us an unusually low cost operator. And gives you excellent reliability and exceptionally advanced capability for all your communications - voice, data, video, internet or intranet. Shouldn't you check that your supplier still stacks up?

ENERGIS
Telecoms
for companies

Call 0800 316 1610

ISSUED BY ENERGIS PLC AND APPROVED BY KLEINWORT DEDSON LIMITED (REGULATED BY THE OFS). THE VALUE OF SHARES CAN FLUCTUATE. ANY APPLICATION FOR SHARES SHOULD BE BASED ON THE PROSPECTUS ALONE. FOR ADVICE PLEASE CONSULT A PROFESSIONAL ADVISOR.

PROFILE Airtouch Communications

Foreign operations are key to profits

US-based Airtouch Communications likes to describe itself as the world's largest independent communications company focused entirely on wireless communications. It has about 10m cellular and pager customers worldwide and operates in 12 countries and in some of the fastest growing cellular markets.

The company was spun off from California-based Pacific Telesis Group in 1994 and has a market capitalisation of about \$20bn. Airtouch provides cellular service to about 4m customers and more than 3m paging customers in the US, making it one of the largest providers of wireless communications services in the US.

Earlier this year, Airtouch announced a definitive agreement to merge with US West Media Group's domestic cellular business in a deal valued at \$5bn. "This will make Airtouch the largest cellular carrier in the western US, giving it an additional 2.2m customers in 12 contiguous western states when the merger is completed next year."

The US West deal, however, could fall through if current US legislation known as the "Morris Trust" passes in its current form which would block the merger. If this occurs, the two companies will proceed with their current joint venture agreement.

The addition of US West's cellular network will give Airtouch valuable benefits from increased economies of scale which should serve to drive down operating costs as prices for cellular services continue to fall. The company has strong cash flow and conservative financial policies, prompting Standard & Poor's to give it a corporate credit rating of BBB+.

Third-quarter fiscal results reported on October 23 showed a large increase in profitability with earnings per share jumping 150 per cent to 25 cents, compared with 10 cents per share for the same period in 1996. The results were boosted by the company's overseas operations which began showing strong profits.

"Our international performance this quarter was particularly impressive. Our 11 ventures in total achieved significantly improved profitability coupled with record customer growth,"

said Sam Ginn, chairman and chief executive officer of Airtouch. "Meanwhile, in the US, our cellular business posted its best margins ever, demonstrating our ongoing ability to reduce cash costs per subscriber faster than the decline in revenue."

With about 20 per cent of the US population subscribing to cellular services, competition has grown tougher in US markets, especially with the introduction of Personal Communications Services (PCS) digital communications services. Airtouch says it has managed to hold onto customers by offering new packages of competitive services and draw upon its economies of scale to drive down cash costs in the third quarter by 22 per cent, compared with the same period in 1996, while cash flow margins grew to 49.2 per cent, the best in the company's history.

"International operations have been very important to us and contribute out of revenues but also provide us with ideas and services we can use in the US and other markets," said an Airtouch spokesperson. "For example, in Sweden, the market for wireless internet data services is much more advanced than it is here."

Airtouch operates joint ventures in Belgium, Germany, India, Italy, Japan, Poland, Portugal, Romania, South Korea, Spain and Sweden.

Italy is one of the fastest-growing European cellular markets and the company is also aggressively pursuing emerging markets. Earlier this year it entered into the Indian and Romanian cellular markets, and its joint venture in Brazil has won a licence for cellular services in the populous São Paulo area, although that licence is currently tied up in a legal challenge mounted by a competing consortium.

"We've done well in international markets because we've been able to bring our US experience in providing high quality customer service to countries where the entrenched telecoms companies have been slow to respond," said the Airtouch spokesperson. Airtouch is currently the largest operator in the US of Global System for Mobile Communications (GSM) networks. It is also focused on PCS and has a 25 per

cent interest in PrimeCo Personal Communications which has 11 PCS licences in big US metropolitan areas, giving it access to new markets such as Chicago.

Although PCS services currently represent a small percentage of the company's customer base, US market research firm Dataquest expects that by 2000, about 50 per cent of all US wireless communications will be using PCS handsets, even though most of those handsets will offer dual modes supporting existing analog cellular in addition to digital PCS. Airtouch already offers dual-mode handsets so that customers can take advantage of both types of networks depending on their location.

Airtouch recently authorised the repurchase of up to \$1bn of its own shares and it plans to continue investing in its communications infrastructure and in joint ventures in the US and internationally.

Airtouch expects wireless communications markets to continue expanding in the US, pointing to much higher cellular use in countries such as Sweden where about 30 per cent of the population is subscribed to cellular services.

There are also potential opportunities in new kinds of services that replace a company's existing internal telephone networks with wireless systems - and in internet data services that can provide subscribers with access to e-mail and information published on world wide web sites.

Airtouch has an interest in the Globalstar satellite-based communications venture which plans to launch and operate a network of 40 low earth orbit communications satellites providing inexpensive worldwide wireless communications services. Globalstar's network will open up markets in rural areas and in developing countries where establishing existing wireless communications services is too expensive. It will also give Globalstar customers worldwide roaming capabilities for their phones.

Airtouch has entered into joint ventures that will provide Globalstar-based communications services in the US, Canada and Indonesia.

Tom Foremski

THE US • By Tom Foremski

Digital gets airborne - at last

A battle over standards is one of the problems which have had to be resolved

Digital wireless telephone systems in the US have taken longer to establish themselves than initially expected by US telecoms companies, largely because of the huge installed base of analog systems, but digital phone services are now showing signs of taking off.

Digital phone services based on so-called Personal Communications Services (PCS) systems promise clearer sound, lower prices, greater channel capacity, and handsets that run longer on batteries. But PCS has had to overcome a number of financial, marketing and technological barriers.

US companies have spent \$17bn on licences to broadcast on PCS frequencies. But the high cost of those licences, which were bid up in auction, left many companies without enough money to build their PCS networks.

In addition, there has been a battle over industry standards between the newer code division multiple access (CDMA) and the older but more established time-division multiple access (TDMA) technologies, and the US ver-

sion of the European Global System for Mobile Communications (GSM), which is based on TDMA.

CDMA offers greater carrying capacity but the technology is more complex, and it does not have the established base of equipment providers and lower costs of TDMA. This has forced many US companies to choose between taking a risk with the less well established CDMA or jump straight into the market with the better established TDMA or GSM.

Some companies such as AT&T chose TDMA, mainly because most of their existing equipment is from Ericsson, which does not support CDMA. Others, such as Sprint, have chosen CDMA.

"CDMA has been the majority choice in the US but TDMA is strong in foreign markets," says Clint McCellan, senior analyst at US market research firm Dataquest. "CDMA offers much better voice quality and can carry more channels. But those companies that chose TDMA have had an advantage in terms of getting to market more quickly."

According to the CDMA Development Group, 51 per cent of US PCS companies have chosen CDMA, compared with 28 per cent who opted for GSM, and 20 per cent for TDMA.

For example, California-based Pacific Bell Mobile Services (PBMS) decided to choose GSM for its digital phone service and it imported technologies and expertise from Europe, where GSM networks have been operating for several years.

PBMS won a bid for two PCS licences from the US Federal Communications Commission for services covering 31m people in California and neighbouring Nevada. Instead of waiting for CDMA, PBMS decided that time to market was critical and it opted for a PCS network based on GSM.

Ericsson was awarded a five-year contract worth \$30m to supply the GSM infrastructure of base stations, switching centres and handsets. UK-based systems integrator Logica was chosen to help set up the vital customer care and billing system.

"Next to the PCS network itself, the customer care and billing system is the most important part of the business. We have to be able to quickly respond to competition, with new services and rate plans. And with a high level of customer service," said Rosaleen Dorrington, executive director at PBMS.

"Logica helped us a lot. They used their experience to tell us what was possible in the time frame we had."

A key obstacle for PCS has

been marketing. The US has a cellular subscriber base of about 45m, representing about 17 per cent of the population, most of them using analog systems. Trying to persuade these customers to switch to PCS services has been an uphill battle for many companies, mainly because customers are confused about the technologies. Furthermore, the analog systems already offer relatively low prices and wide cellular coverage.

A survey by Ameritech Cellular Services earlier this year found that 82 per cent were confused by the various wireless options. About 69 per cent said they were not concerned about which technology they used as long as it gave them reliable service. A mere 8 per cent had heard of CDMA or TDMA and only 1 per cent knew what the abbreviations stood for.

In addition to marketing costs, digital handsets are more expensive to build, and the network infrastructure is expensive. Although companies are expanding their PCS infrastructure, they cannot yet offer the same wide coverage that analog networks offer.

Mr McCellan says that many companies are introducing dual-mode handsets that support PCS and analog networks, to make sure that customers are guaranteed

wide coverage yet have the benefits of digital wireless. Dual-mode handsets use digital networks where they are available, but automatically switch to analog cellular where necessary.

"Adding analog to a PCS phone is relatively cheap and it allows companies to leverage their existing analog cellular networks, plus they are able to offer a package of different services," Mr McCellan said. "In this way, they can lock in customers with cheap analog and migrate them to digital as the infrastructure expands and as prices for the equipment and handsets become lower."

Dataquest estimates that 50 per cent of all US cellular customers will be using digital by 2000, even though in many cases they will be using a dual-mode handset.

Digital wireless systems, however, can challenge analog cellular in other ways, by tempting customers with a wide variety of new services. Transmission of digital information such as news, stock quotes, plus giving customers access to e-mail and internet connections will be key services that can provide PCS companies with a range of profitable premium services. Companies such as Nokia have begun promoting the use of smart phones in the US that offer such services.

CHINA • By Nick Ingelbrecht

A focus for overseas investors

Foreign companies are using joint venture funding structures to establish a presence

China's burgeoning mobile phone market has become the focus of efforts by foreign investors seeking a foothold in the mainland's tightly restricted telecommunications sector.

Last month's \$4bn listing of China Telecom (Hong Kong) gave minority shareholders their first taste of the mainland's telecoms services business - one which still remains officially closed to foreign direct investment and participation in network operations.

Despite the ban, an increasing number of foreign companies are using joint venture funding structures with local Chinese companies to establish a presence as financiers and consultants to mainland operators. Their interest is not surprising, given a market which has doubled in size every year since the first cellular services were launched in 1987.

China Telecom, the operational arm of the Ministry of Posts and Telecommunications (MPT) in Beijing,

reported that the number of mobile phone subscribers had passed 10m in July this year, while analysts estimate the country's user base will top 12m towards the end of December.

"We would expect China to be the largest GSM market worldwide by the end of 1999," said Mike Short, director of international affairs at Celbnet, which has tied itself into the mainland's rapid growth in mobiles through subscriber roaming agreements. The MPT has revised upwards its own market projections twice during the past year and now estimates China will have 30m cellular users by the end of 2000.

"The Chinese cellular market has recently been transformed from a monopoly into a competitive market, where there may soon be six competing networks in any given city," said Dylan Tinker, regional telecoms analyst with Jardine Fleming Securities, in a recent market study.

In the past few months, said Tinker, cellular airtime charges in mainland China have fallen to about 5 cents a minute, which is about a quarter of the average tariff charged by cellular operators in the special administrative region of Hong Kong.

The main protagonists in the market are China Telecom, which boasts a 98 per cent share of the cellular market, Lian Tong Telecom-

munications Corp, also known as Unicom, which last month claimed 300,000 subscribers, and the People's Liberation Army, with a few score thousand customers.

China Telecom's listed subsidiary, CTEK, which incorporates the country's two biggest provincial cellular networks in Guangdong and Zhejiang, accounts for 28 per cent of the total national subscriber base.

"No one in the Chinese bureaucracy [is] advocating opening services to foreigners, they are all much more concerned about their own right to compete," said one Beijing diplomat recently.

The financing requirements of China's competing cellular operators have, however, created a small window of opportunity for foreign companies - including Deutsche Telekom, France Telecom, McCaw International, NTT International and First Pacific Co - attempting to establish themselves on the mainland, although the obstacles remain formidable.

Despite "wishful thinking" to the contrary, China's telecoms policymakers have no incentive to change the rules to favour foreign investors, argues John Ure, director of the Hong Kong University's Telecoms Research Project.

"China is not about to open its doors to foreign direct investment in its telecoms networks or services," he said. "First, it does not

need to. Despite network build-out plans which are ambitious by any standards, China is well on course towards fulfilling the targets of the fifth five-year plan and is generating sufficient revenues to attract foreign funds on very favourable terms. Second, the MPT has an interest against foreign direct investment."

China Telecom's strong cash flows mean the MPT, which also acts as the country's telecoms regulator, has no need to reform the telecoms sector and also fears that an influx of foreign funds would simply aid its fledgling competitors, said Mr Ure. For that reason, some analysts believe foreign operators would do better to seek out relationships with alternative carriers.

The risk and reward profile of ventures with Lian Tong have proved too much for some international operators, such as the handful of US regional Bell holding companies which set themselves up in China during the past three years only to pull back subsequently from their investments, blaming regulatory and commercial obstacles.

In several cases, most recently with Ameritech in Shanxi Province, their local partnerships have been snapped up by Hong Kong and Singapore companies with stronger stomachs for the precarious telecoms

investment environment in the mainland.

Hong Kong-based Hutchison Telecommunications is striking out on its own to establish partnerships with China's alternative carriers. Lian Tong said it was negotiating with Hutchison for the construction of CDMA cellular networks in 20 cities, with services due to be launched at the end of next year. "We chose a few cities to start, but in the future it will be a national network," said a Lian Tong official.

In a separate mainland venture, Hutchison also has agreements to provide services and equipment for CDMA systems in a further 35 cities on behalf of Great Wall Communications, a joint venture between the MPT and China Electronics Systems Engineering Company, a subsidiary of the People's Liberation Army.

The growing participation of Hong Kong companies in the mainland's telecoms industry is not accidental and may be formalised in China's long-delayed telecoms law, due to be promulgated during the next 18 months.

Liu Cai, director-general of the MPT's department of policy and regulation, said: "In this new draft law, we are thinking about having some flexibility for at least Hong Kong companies to have certain further participation in the sector."

PROFILE MobileOne

Gobbling up the cellular market

The mobile phone is integral to the communications culture of Singapore. Mobile penetration, at about 12.5 per cent, is one of the highest in the region, and an average talktime of 350 minutes a month makes a modest figure of the 90 minutes US users spend talking on their mobiles.

Despite this, Singapore's cellular market has had among the lowest subscriber growth rates of the Tiger economies. What was needed was competition and this arrived in the market in April this year when the country's second cellular operator, MobileOne (M1), rolled out its GSM service.

Within just 180 days the company had gobbled up 18 per cent of the existing cellular market, and today boasts a subscriber base of 115,000 - an impressive figure given a population of only 3m. Furthermore, whereas initially 30-40 per cent of the company's customers were defectors from the majority state-owned cellular monopoly SingTel, now most of M1's new subscribers are first-time subscribers.

Aggressive marketing, some intelligent customer-specific packages and the benefit of the

experience of its shareholder companies - Kellip Group, Singapore Press Holdings, Hongkong Telecom and Cable & Wireless (C&W) - have been key to the strategy of the company, whose entrance to the market exceeded all expectations.

According to Neil Montefiore, chief executive of MobileOne, M1's intention was to compete with SingTel on three fronts: quality, customer service and value. "We wanted to offer value that could be seen on a rational basis," he said.

Boss Cornack, managing director of major shareholder Cable & Wireless AsiaMobile, believes the extensive market research conducted by MobileOne has given the company an advantage over SingTel.

MobileOne, he says, "created a number of different brands that spoke in different voices to different market segments in a way that was fresh and new. In other words, we expanded the vision of what mobile telephony is all about, and I think we were very clear. We tried not to confuse our customer base. We tried to come up with a simple, easy-to-understand package."

All M1's customers

receive voicemail and short messaging services at no extra charge. An e-mail service alerts the subscriber if an internet e-mail is received by sending a page to the customer via their mobile handset.

M1 is also partnering internet provider Cyberway, and other content providers, to offer short messaging services to subscribers' handsets, providing up-to-date news, financial, travel and other information.

A big influence on the Singaporean market has been tight regulation with a clear vision of what the country wants from its telecoms industry. The Telecommunications Authority of Singapore (TAS) ensured that any rival to the national telco would have to be prepared to make substantial investments for no easy returns. It also insisted that a second operator eschew at least one of the normal routes to boosting subscriber take-up rates: that is subsidising the cost of a handset.

In addition, both companies must provide a basic number portability facility which has ensured that customers signed up to state-owned incumbent

SingTel could switch to MobileOne yet still retain their existing mobile numbers.

Mr Montefiore believes this strong regulatory framework has helped to avoid the oversupply of services and consequent commodification experienced in countries such as Hong Kong.

"The entry of M1 has demonstrated that customers appreciate choice," he says. He believes his customers enjoy a cheaper service than, say, UK subscribers, and as a result, make more use of their mobile phones.

MobileOne has also benefited from C&W's experience in the region. Mr Cornack believes C&W's extensive involvement in other mobile markets is a useful benchmark against which to measure MobileOne's performance.

"[Its Singapore government] reminds us very much of our own strategy as a corporation," says Cornack. "It's a growth market and also a showcase market where we are very pleased to be involved."

Cellular penetration is set to increase in the region and, in addition, wideband data applications, such as the internet and intranets, will place demands on

networks for the sort of increased capacity (Code Division Multiple Access) technology can offer. In the first quarter of 1998, M1 will launch the first CDMA network in the region.

"GSM is a mature technology of today, however CDMA could bring a lot to customers such as US roaming," says Mr Montefiore. CDMA's better spectral efficiency will also result in lower operating costs, smaller and lighter handsets, and improved speech quality which, Mr Montefiore believes, will be more attractive to the market.

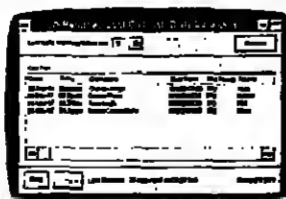
Singaporeans are heavy social users of cellular phones, and M1 will pitch CDMA at new subscribers in this category, as well as at the fixed-line replacement market. Mr Montefiore, who is anxious to avoid having the CDMA service cannibalise M1's GSM network, plans to differentiate the two services, limiting the affordability of CDMA to "certain market segments".

Furthermore, M1's stockholders have announced their intention to bid for one of two fixed licences up for grabs later this year.

Jackie David

"How can a phone system convince my customers that we are efficient and that we care?"

We'll show you



Please send me more information about Genesis

Name _____
Position _____
Company _____
Address _____

Telephone number _____
For more information write to: P.O. Box 438, St. Albans, Herts AL1 1BR

Genesis
Telecommunications Plc
tailored solutions
0800 7311561
PO Box 438, St. Albans, Herts AL1 1BR

مركز الاتصال

**We always knew our people were the best.
But it's nice when the rest of the world agrees.**

WORLD'S MOST ADMIRABLE TELECOMMUNICATIONS COMPANIES

1. SBC Communications
2. Nippon Tel. & Tel.
3. BellSouth
4. British Telecom
5. MCI Communications
6. AT&T
7. L. M. Ericsson
8. Deutsche Telekom
9. GTE
10. France Telecom
11. IBM

A survey in FORTUNE® magazine named SBC Communications the most admired telecommunications company in the world. The editors wrote, "Every company claims that its people are its most important asset. The most admired companies in the world show they really mean it." Congratulations to all our employees for being named best in the world. Everywhere in the world you are.



SBC Communications Inc.
www.sbc.com

CASE STUDY BT telemarketing

Drive to improve quality of service

BT, the UK's largest telecoms operator, is using call centres to defend its position in its deregulated and increasingly competitive home market. As a state-owned monopoly, BT was a byword for bad service. But today, re-born as a private company and facing threats from all directions, BT reckons that good service could become its principal distinguishing feature.

BT has long been one of Europe's largest operators of call centres, used to support its customers, but now it is expanding that activity as part of a drive to improve its quality of service.

It is moving from only handling inbound calls to launching outbound operations from telemarketing centres for the first time, in order to take a more proactive relationship with its customers.

"We did not have any competition in the past, now there is a lot of it and we have to respond to it," says Chris Anderson, the manager of BT's computer-telephony integration unit.

Six new telemarketing call centres are being set up around the UK to help BT keep in contact with its 21m domestic and 5m business customers.

Every domestic customer should get a call from BT once a quarter to check whether its telephone service has been satisfactory and inform him or her about any new deals or changes in prices.

The call centre agents will promote BT's "Family and Friends" discount scheme for regularly called numbers as well as BT's charge cards and other products and services. At the same time, the company will be promoting its premium service for high-volume users and

ensuring that customers are on the best tariffs for their type of use. This is seen as an important strategy in the struggle to repel the challenge of cable companies, which are stepping up their marketing in an effort to capture more telephony customers from BT.

The new BT call centres are in Warrington, Glasgow, Belfast, Bristol, Newcastle-upon-Tyne and Doncaster. Four of them have been opened recently and the other two are expected to be opened before the end of the year, at a total cost of more than £100m. They will employ about 3,500 agents.

The centres will use desktop applications such as call scripting and "screen popping" from Graham Technology, a Scottish software developer which moved into customer management systems in 1994, and call distribution and predictive dialling systems from Haves Corporation, a US call centre systems supplier.

Call load balancing and networking software has been supplied by Genesys, a US computer-telephony integration specialist. BT has also invested heavily in switching technology from Nortel, servers from Sun Microsystems and personal computers for its agents.

Calls will be switched from one centre to another to avoid callers having to wait and to ensure that they are answered by the most appropriate available agent. Most of the agents will work part-time - typically about 25 hours a week - and about half of them will be supplied by external agencies in order to give BT maximum flexibility in coping with unpredictable peaks and troughs in demand.

At the same time, BT is also increasing its investment in its existing inbound call centres, of which there are dozens around the country employing about 12,500 agents. These handle 150 and 154 calls from domestic customers and businesses querying bills and reporting faults, 100 calls to the operator and 192 calls to directory inquiries, as well as 151 and 162 calls for sales of equipment such as fax and phone-answering machines.

The centres will be networked together using Genesys software to form a nationwide "virtual" call centre, again transferring calls from one to another automatically to improve the service. Both projects are due to be completed in the next few months.

BT has invested £10m in software from Genesys, half of which will be used for BT's own campaign, the other half being re-sold to BT's corporate networking clients. BT's prospective US partner, MCI, has a minority shareholding in Genesys.

"It's always a battle to cope with the huge volume of calls, but people will be able to get through more easily and get their questions answered more quickly," says Trevor Richer, BT's marketing manager for call centres. "We will never be a leader on price, but we will be a leader on service," he says.

"It would be possible to improve service just by adding more agents to existing operations, but that was the most expensive solution and not necessarily the most effective."

"People represent about 65 per cent of the cost of a call centre and if callers can't get through to them they are wasted. That is why getting the best technology is essential."

George Black



The Merchants Group management consultancy's 450-seat communications centre, based in Milton Keynes, is one of the most technologically advanced communications centres in Europe. Staff make or take more than 250,000 calls each month on behalf of clients who have outsourced their operations. Merchants service 43 countries and have capability in more than 25 languages. Clients are from the financial services, technology, utilities and pharmaceuticals industries

CALL CENTRES By George Black

Wrestling with technology

Setting up a call centre usually involves a series of difficult decisions

The call centre market in Europe is growing at about 40 per cent a year, according to recent research by Datamonitor, as the cost of the technology falls.

More and more organisations are setting up call centres to deal with their customers and win new business, but the technology involved is complex, immature and often badly deployed. It typically comprises a switching system, either private branch exchange (PBX) or automatic call distribution

(ACD); a client-server computer system; and a number of software applications such as call logging and routing, scripting, voice mail and interactive voice response (IVR). Computer-telephony integration (CTI) is the jargon term for all this; how well computers and telephones are integrated is the key to success.

A large volume of inbound calls can be handled by directing each call to the next available agent and making all the relevant caller information immediately available to that agent. By avoiding the need for the customer to repeat his name and address and the subject of his call, a lot of time can be saved and the customer will feel his inquiry has been better handled.

Outbound calls are speeded up by automatic or "predictive" dialling, connecting the agent to the customer or prospect at the right moment.

Inbound and outbound operations can be conducted much more cost-effectively by a call centre than by traditional channels if the technology is properly applied.

Some UK call centres, notably in financial services and the utilities, have been set up very well and have succeeded both in improving customer service and gaining market share. Many more, however, have not been thoroughly planned and have succeeded only in alienating callers.

Call centre systems, being extremely complex, can rarely be bought off the shelf. Organisations which intend to set up call centres

will usually need to use the services of a systems integrator to get the various components to work together.

Setting up a call centre involves a series of difficult decisions: whether to outsource some or all of the functions; whether to operate on a national or an international basis; where to locate; and what systems to use.

According to Nick Stratta, manager of telebusiness marketing for Cable and Wireless Communications, the UK network operator: "The hardest part of setting up a call centre is to know what you need it for."

Users tend to plunge straight into the technology before they have analysed who they call and who calls them and why, he says. "Once you know what type of business you are in and what your needs will be, it is much easier to decide what sort of centre to set up."

By choosing a suitable outsourcing partner or consultancy, it is possible to get help on some of the other difficult issues. In the UK, the telecoms operators and others will help their clients to obtain a suitable site, advise on the systems, manage the project, arrange the training and support the system in use.

Outsourcing is a popular way of setting up a call centre, particularly for handling sudden surges in calls, for example in response to a television advertising campaign. This can allow the resources to be scaled up or down to deal with peaks and troughs in demand.

The UK market for direct response television advertising is growing but may be still not large enough to justify a big investment in a local call centre. About 80 per cent of responses to TV advertisements occur within about 10 minutes of the advertisement being shown, which can create a peak demand for 500 agents, falling off to a demand for perhaps only five agents an hour later.

One solution to this problem is for peak-time responses to be switched to a call centre in the US, where the direct response television advertising market is much more developed.

According to Don Anderson, UK managing director for Matrix Marketing, an outsourcing company which operates a service of this kind, the sharp fall in transatlantic call charges makes it very cost-effective to switch UK calls to US agents.

Only 5-10 per cent of users outsource the operation of their call centres at present, but the proportion is growing. This is partly because the technology is becoming more complex and the range of functions broader, so it is harder for users to manage themselves, and partly because users are deciding they would prefer to invest their capital in other things.

Large companies have been improving their cost-effectiveness by combining centres. Organisations which used to have 20-30 centres for their different departments have sometimes managed to reduce that number to half a dozen or even fewer, achieving substantial savings.

For smaller users, there has been less choice of technology but it is now growing significantly. Until recently most call centres have been operated by large organisations dealing with large volumes of calls. For these the systems are relatively expensive and time-consuming to set up. However, new cheaper systems based on personal computers and Internet technology have begun to emerge. At the same time CTI standards are evolving and systems are becoming more tightly integrated.

These developments are starting to bring the call centre within the range of small and medium-sized companies. Whereas a few years ago it was only cost-effective to set up a call centre for 100-200 agents, now systems are available which could effectively serve as few as 20 agents.

In Britain, many government departments and local authorities have implemented basic call centres, but usually without making full use of interactive voice response and other advanced applications.

Paul Smith, research manager for the Kable consultancy which studies public sector systems, thinks that these organisations could make much bigger savings in handling their huge volumes of calls if they adopted more sophisticated technology. But he says many public sector organisations are still very reluctant to consider the telephone as a standard way of dealing with their customers.

In-Depth Analysis On Worldwide Mobile Communications From

FT MEDIA & TELECOMS

DATA DISK

Please tick for further information

Mobile Communications Cellular Subscribers 1988-1997

Monitor the growth of the global mobile industry with the complete cellular subscriber figures worldwide from 1988 to 1997. This new FT Media & Telecoms disk will provide you with all the key facts and figures you need to forge a competitive advantage.

MANAGEMENT REPORT

Please tick for further information

Mobile Equipment in Europe

This new report is your essential guide to the booming cellular market in Europe. The wealth of market information, intelligence and forecasts will enable you to understand the current state of the national markets, assess the major regional trends and appraise the total market, proving vital for your business planning.

NEWSLETTERS

Please tick for a sample copy

Asia Pacific Mobile Analyst

With the Asia Pacific mobile market one of the fastest growing in the world, how can you keep on top of developments, exploit opportunities and gain a competitive edge? This new newsletter will provide you with authoritative, analytical coverage of the issues important to the success of your business.

GSM Service Monitor

The leading information source for the global digital mobile telecoms industry gives you in-depth, specialist coverage of this evolving technology. The accompanying Data Supplement provides vital statistics and forecasts, helping you identify market trends, seize the right opportunities and increase your company's profitability.

Mobile Communications

This market leading newsletter is packed full of essential analysis and comment, offering you a competitive edge in the lucrative mobile market. Each issue features news on the growth of mobile communications markets worldwide, new products, services and technologies and regulatory developments.

Name

Job Title

Company

Address

Telephone Fax

Email

Please send me information on other publications available in the following areas:

☐ Telecoms ☐ Cable & Satellite
☐ TV ☐ New Media

Please return to:
David Benson, FT Media & Telecoms, Maple House,
149 Tottenham Court Road, London W1P 9LL
Fax: +44 (0) 171 896 2235
Phone: +44 (0) 171 896 2388
Email: davidb@pearson-pro.com



FINANCIAL TIMES
Media & Telecoms

For more information on all our titles visit our website: www.ftmedia.com

VALUE-ADDED SERVICES By Alan Simpson

Search for new services

The telephone companies are keenly seeking ways of increasing traffic

In an increasingly competitive world, offering value-added services is as important as providing value for money. As Teligent, the privately-owned Swedish telecoms company puts it: "With price no longer the key bargaining tool, telecoms and network operators are looking for new ways to differentiate their services. As a result, they have begun to look at ways of developing new products and services which can be brought to market quickly and cost-effectively in order to win customers and retain existing ones."

In the UK, telecoms deregulation has meant that the number of operators has increased dramatically from the original BT, Mercury and a few mobile companies, to more than 300 fixed and mobile operators - all aiming to increase revenues by adding value to their services and by specialising in niche areas.

Recent suggestions are that the UK telecoms market will rise in value from £18bn now to almost £30bn by the year 2005, triggered in part by a host of innovative and value-added services. Although price and coverage

will continue to be key factors, other factors such as quality, customer care and value-added services will apply.

With telephone lines grossly under-used, the telecoms are keenly seeking ways of increasing traffic. One method is to implement new digital billing systems which allow the operators to fine-tune existing tariffs and add new services - in particular, to handle, perhaps on the same bill, services providing a mix of voice, data, graphics and video.

With a near 100 per cent digital network, BT already offers a raft of value-added services. These include Call Waiting (a rental product which alerts the user to the fact that a second caller is on the line), Call Diversion (a rental product that allows the user to choose to have calls diverted), Three Way Calling (a rental product that allows the user to speak to two other parties simultaneously), Call Barring (for a rental, this allows users control over a range of different barring options), Reminder Call (for a fee, the user can set the phone to act as an alarm clock), Call Return (which allows users who have a single line to find out the number, time and date of the last incoming call - free), Caller Display (a rental product which allows the customer to see the number of the person calling before answering the phone and for which special equipment is

required), Call Minder (a rental product which provides an answering service), and Ring Back (if the number being called is engaged, then the system will ring back when free).

Then there is the ubiquitous BT Family and Friends Value Plans which allow customers to select a variety of options. And BT is currently developing Call Sign where two different ringing tones on a single line, each one associated with a specific telephone number, helps users to identify callers. High-speed Internet, e-mail and multimedia services will follow. Already in France, consumers can have a voice-fax added to their phone line.

Meanwhile, Deutsche Telekom is relying on customised communications solutions to increase business. The company will be expanding the tariff system in order to target specific groups and to meet the needs of individual users as well as speeding the pace of installing ISDN lines and ATM services.

The use of advanced services is a powerful way for an innovative operator to stand out from the crowd, says Pascal Debon, general manager of Nortel Networks. "When coverage stops being a differentiator, all operators want to secure their investment on the basis of attractive and creative new services rather than just price. This is particularly true for

new entrants whose coverage is not superior to that of already established operators." Nortel's special features include Calling Name Display, Alternate Line Service, Virtual Private Network, Personal Number and Location Inquiry.

Consultancy Sema Group believes Europe still lags the US in terms of advanced value-added services. Sema sees having the greatest revenue potential. And looking further ahead to the next generation of telephones, Sema expects the standard phone to act as an organiser and possibly double as a mobile phone as well as connecting to the Internet.

Meanwhile, Cellnet, together with Moudex, is developing a mobile phone system which will allow electronic cash to be securely transferred via digital mobile phones.

Most authorities agree that interactive voice services offer great avenues of development. Teles is promoting the merits of residential audioconferencing and those of pre-paid card services. Also, videotelephony will be an added-value service in the not-too-distant future.

The market will change under the rules of competition and user demand, and network operators will have to keep pace. It is likely to be a high-speed pace. The author is editor of FT Payphone Report

سكربت الاموال

OUTSOURCING By John Williamson

Rise of the supercarrier alliances

Supercarriers say they can cut costs and make the life of corporate telecoms easier

So-called telephonic "supercarriers" alliances are back with a bang - as was amply illustrated by the recent manoeuvrings to take control of MCI, the second-largest US long-haul telecoms operator. Such alliances have been forming since the early 1990s as operators have tried to capture the private network traffic of big-name international and multinational corporations. Potential customers are encouraged to outsource the operation of their telecoms services and networks to the supercarriers in an arrangement that, they are told, will save them money and allow them to concentrate on their core business activities.

Companies routinely outsource catering, building security and cleaning, runs the argument, so why not telecoms? Leaflets from companies such as Concert, Global One and AT&T-Unisource would suggest that supercarrier alliances were marriages made in heaven. In fact, they are the product of a more earthly necessity.

Following telecoms liberalisation in many countries,

incumbent operators are losing business and revenues to new market entrants. A telephone company such as BT may not yet have suffered grievously from the attentions of its now numerous competitors, but the situation can only get worse for the incumbent operators.

As well as becoming much more efficient, established carriers are being forced to diversify into new market sectors. One of these is the provision of managed network services for high-spending business corporations. And, given the circumstance that no individual telephone company has the financial clout or technical skills to enable it to provide a "soup-to-nuts" service in all parts of the globe, those wishing to prosper in this sector are obliged to move forward in harness with like-minded partners.

Virtual private network (VPN) technology can be an important element of the managed network and outsourcing deal. Using special software, the supercarrier is able to partition its network in such a way that, while different users are actually sharing the common infrastructure, each is provided with the sort of facilities it would enjoy if it had exclusive access to a discrete, private network. A more radical step is to outsource the network wholesale, with the

supercarrier planning, implementing and operating the network on a day-to-day basis. In this case, the supercarrier sometimes buys the network from the corporate customer. VPNs and outsourcing are seen to have substantial commercial potential. An estimate last year from London-based consultancy CIT Research said that the world's 500 largest multinational corporations were then spending about \$5m on such services. Jeremy Preston, marketing director for Global One in the UK, says \$964m was spent in 1996 on frame relay and managed data services in Europe.

The managed network and outsourced proposition has some undeniable attractions for big business. Lower cost is an obvious one. By consolidating traffic on the VPN, operators are able to offer attractive discounts to corporate users. Also, VPNs which are charged for on a usage basis are more economic than fixed-cost private networks which are only used intermittently.

According to a 1997 Financial Times Media and Telecoms report on VPNs in Europe, "Outsourcing is particularly popular for corporate telecommunications applications where operators claim that savings of 20-30

per cent are possible when organisations share an operator's backbone infrastructure rather than operate expensive leased lines themselves."

Added to cost savings, the supercarriers say they can make the life of corporate telecoms easier by shouldering the considerable technical and regulatory burdens of building and operating complex cross-border telecoms systems. Related to this is the assumption of responsibility for new technology and network upgrades.

"It's very difficult to build and manage global networks," says Colin Spence, vice-president for Concert Communications Services of the US. "What you typically find is that most international active companies have a lot of capability in their home country but a great lack of resources outside of their home country."

Finally, the supercarrier promises a single point of responsibility for network provisioning, installation, service and billing, and access to a homogeneous repertoire of service at all points in the network. "By coming to a managed service provider you're effectively allowing that provider to take all the pain," says Preston.

But not everything in the

garden is rosy. Notwithstanding the market forecasts being bandied about, some experts believe it is still a hard sell to persuade corporations to relinquish control of such a vital part of their business process and that there is a definite limit to what proportion of the telecoms function they will be prepared to farm out.

In its 1997 survey of leading European corporations, French consultancy IDATE observed: "Only 18 per cent of current users of global services follow a policy of maximum outsourcing of their telecoms services, while 55 per cent say they have no wish to outsource systematically."

Robin Duke-Woolley, a consultant with UK specialist telecoms consultancy Schema, says: "What I think is going to happen is that the major outsourcing contractors will tend to be system integrators or major IT companies, and they will contract out the telecommunications part to a telecommunications company." Meanwhile, other than at an elementary level, current claims concerning the provision of universal services across an international network can be questioned.

"At the moment, none of the so-called supercarriers is in a situation where they could give you the same ser-

vice with full transparency anywhere in the world except for simple bearer or transport services," says Joseph Cornu, president of Alcatel Telecom. "Most of the supercarriers are in very early discussions about the kind of global solutions they are going to apply. It probably will take a new generation of network before they can provide those solutions."

And the supercarriers do not have the outsourcing opportunity to themselves. Ranged against them are longer established enterprises, some service-sector specific, and a number specific to industries such as banking, finance and transport. One example is Equant which operates in 225 countries and territories and claims to own the world's largest international business data and service network.

The biggest puzzle, though, is how the supercarrier alliances and their competitors will differentiate their services, because on paper, all of them look very similar. Spence says Concert is at the front of the field due to its earlier start, the equity structure uniting its partners and close partner relationships in 44 countries, and coverage in 50 countries.

The author is senior technology editor of Global Telephony Magazine

CASE STUDY Varig and Sita-IBM

Airline deal takes off successfully

In the middle of last year, Brazilian passenger and cargo airline Varig, an enterprise with more than 70,000 employees worldwide and a 1997 turnover predicted to be \$3.6bn, selected a consortium of Sita, a global network used by the travel industry, and IBM Global Services to manage its national voice and data networks and IT requirements.

The airline, which carried 10m passengers in 1996, was running one of Brazil's largest private data networks supporting some 3,000 sales and distribution points, and a 10,000-line telephone network.

It had been using the services of Sita for its international network requirements for 40 years. So why outsource the rest? According to Jose Carlos Martinez Sabate, Varig chief information officer, there was a need to concentrate on core business activities.

Related to this was the cost and time required to ensure that the corporate telecoms and IT systems were optimised to support these core activities.

"One of the main reasons for the decision was the constant need to invest in the update of our telecommunications infrastructure and IT systems," says Mr Sabate. "And, of course, we expected to make a cost reduction on day-to-day operations."

The deal covers virtually all aspects of Varig's telecoms and IT functions, including responsibility for network management and availability, help-desk

support, data processing, data centre operations, applications development and maintenance.

The Sita-IBM team also handles relationships with telecoms operators in Brazil. There are presently about 20 of these with more on the way after a new round of liberalisation has taken place.

However, Sabate thinks it is important that a company maintains the competence to define what it needs from the managed network provider, and the airline does this.

Varig did find that the outsourcing partnership was unable to accommodate its requirements for radio systems linking ground and aircraft, but Sabate acknowledges that this is a very specialised business, especially because the orientation of these systems is currently changing from analogue voice to digital data.

Varig says its outsourcing deal works well and Sabate offers companies considering the outsourcing option two pieces of advice.

First, since telecoms and IT functions are often critical, you need full commitment to it and the decision to take that route should be taken by the executive board of the enterprise, or a representative committee.

Second, once the decision has been taken, it is vital that the request for proposals from the service provider is framed in such a way as to accurately represent the expectations of the user.

John Williamson

CASE STUDY

Managed networking: a natural for gas

Some managed and outsourced services are operated over wireless as opposed to wireline infrastructure, writes John Williamson. A case in point is the Data Direct managed data communications service for business and corporate customers recently introduced by UK cellular operator Vodafone.

Vodafone claims five benefits for Direct Data - a single point of access to a range of data and message

services, one point of contact for customers, one contract, one bill, and one replaced with access to an advanced managed network. The service is available to Vodafone's GSM network, with integrated voice and data services. Most of the company's 1,200 field service engineers have been equipped with CD-Rom capabilities to access service, parts and diagnostic information. The

PCs are hooked up to GSM telephones, that link the engineers to British Gas Services' management information system. The management information system, which is available 24 hours a day, allows engineers to download at the engineers' request in the morning. Job details for unplanned work are received by any one of seven Area Service Centres and then transmitted to the best-placed engineer's lap-

top via the digital cell phone. More than 60,000 calls each day are exchanged between the engineers and British Gas Services' host system. Each call, which typically is set up in less than seven seconds and lasts less than 15 seconds, carries information relating to service calls, work in progress, stock requirements, technical data and other mission critical messages.

Using specialised GSM communications software, paperwork has been reduced, and where work is chargeable, payment is mostly processed on site. "Engineers are now being expected to make a cost reduction on day-to-day operations."

The deal covers virtually all aspects of Varig's telecoms and IT functions, including responsibility for network management and availability, help-desk

support, data processing, data centre operations, applications development and maintenance. The Sita-IBM team also handles relationships with telecoms operators in Brazil. There are presently about 20 of these with more on the way after a new round of liberalisation has taken place. However, Sabate thinks it is important that a company maintains the competence to define what it needs from the managed network provider, and the airline does this. Varig did find that the outsourcing partnership was unable to accommodate its requirements for radio systems linking ground and aircraft, but Sabate acknowledges that this is a very specialised business, especially because the orientation of these systems is currently changing from analogue voice to digital data. Varig says its outsourcing deal works well and Sabate offers companies considering the outsourcing option two pieces of advice. First, since telecoms and IT functions are often critical, you need full commitment to it and the decision to take that route should be taken by the executive board of the enterprise, or a representative committee. Second, once the decision has been taken, it is vital that the request for proposals from the service provider is framed in such a way as to accurately represent the expectations of the user. John Williamson

new
Merchandise
daily*
*2 patents every 24 hours.

Working round the clock to bring you

fresh Bell Labs innovations.

Just in: New Internet Telephony Servers.

Enable calls over Net using ordinary phones/faxes

(elemedia™ adds great sound).

Plus, 56 Kbps modem chip sets. Can make

accessing Net over regular phone lines 2x faster.

Also in stock: call centre solutions

for small and medium-sized businesses

(many languages and dialects to choose from).

More breakthroughs on the way.

(Tomorrow, the day after, etc.)

Lucent Technologies
Bell Labs Innovations

101 Wilmot Street
Dept. 402
London W1H 9AB, UK
44-171-547-8037
http://www.lucent.com

We make the things that make communications work.™

INTERNET ACCESS • By Tony Morban

THE INTERNET • By John Williamson

Growing number of Empires prepare to strike back

If you want to boost your access speed, fresh alternatives are on the way

When you began surfing the Internet you used an analogue dial-up modem to access text, progressed through 14.4Kbps to 28.8Kbps and now, even with 33.6Kbps, you ask what is next to speed up multimedia applications.

Or perhaps you now find the Internet an integral part of business and have decided that it is time the office took access seriously. Your choice relates to what you actually want to do, how much you are willing to pay, and crucially, what is actually available now in your area.

The latest asymmetric analogue dial-up modems now reach speeds of 56Kbps downstream and 33.6Kbps return path, so if you are not planning to send large graphic or multimedia files, asymmetric architectures are quite suitable.

But ISDN (integrated services digital network) lines can offer 64Kbps, or doubled for a dedicated 128Kbps line, and are presently being heavily promoted by the telephone companies.

ISDN is already the most popular access route for small businesses, and companies such as Internet office solutions supplier Network Alchemy are further enhancing ISDN functionality with products enabling it to serve as a PBX, offer voice IP (Internet Protocol), and firewalls, and integrate voice and data offerings. The downside is that ISDN is marketed as a business service and is priced accordingly.

For heavy users - more than 4½ hours a day spread over multiple machines - a better option is to get a leased line, copper or fibre, from the local telco allowing 100 per cent availability for a fixed monthly fee. Capacities

range in multiples of 64Kbps up to 2Mbps (an E1 line) then 10Mbps. Over 1.5Mbps and you are in the realm of delivering real-time video.

Leased lines offer as many addresses as required and allow companies to put their web server on site - vital if you want to offer services from your web site that integrate with your database. This is the true corporate route for extensive Internet use.

Over 1.5Mbps and the cable and telephone companies will be competing for your business next year, cable flaunting the bandwidth of fibre optic-cable networks using cable modems, and the telcos squeezing extra bandwidth out of their copper networks using Digital Subscriber Line (DSL) compression technologies, grouped as xDSL. The most widespread is Asymmetric Digital Subscriber Line (ADSL) which achieves 1.5 Mbps to 8Mbps, with upstream rates of 16Kbps to 640 Kbps.

A telco alternative to broadband technologies is switched digital broadband as part of a migratory path to add data and later video services, intended to provide bandwidth on demand.

Some cable TV companies expect to deliver cable modems next year, typically offering 3Mbps to 10Mbps downstream, but there are wide variations, with symmetrical models for business users who do want to send very large files, including video.

US cable modem manufacturer Terayon reports live cable modem systems achieving 14Mbps each way. New Media Communications, another cable modem maker, is introducing a 54Mbps downstream model, and Com21 of the US is offering a segmented service to allow varied pricing for varied bandwidth. Again, all provide constant access with no dial-up for a monthly fee.

Dick Day, corporate vice-president of Motorola

Multimedia Group, says that his company's cable modem shipments show the US industry is on course for 100,000 US unit sales this year, expected to double next year.

High-speed wireless Internet access is to be offered by UK cable operator Eurobell using MVDS (two-way wireless broadband) with data delivered at 2Mbps.

In Europe, Hughes Olivetti Telecom's DirectPC competes with Eutelsat and Comnet's service using 60cm antenna reception. A satellite PC card from ComStream claims downstream reception of 45Mbps. And BSkyB is teaming up with BT in British Interactive Broadcasting to provide a service prior to ADSL roll-out, and Bill Gates of Microsoft has a share in the global ambitions of Teledesic's planned low-level satellite Internet delivery system.

Remote access to the Internet is possible on a digital mobile phone. The Nokia 9000 Communicator via Orange uses dial-up but connects in eight seconds rather than 45 seconds for earlier versions. Digital mobiles such as the Psion 5 provide Internet access at 9.6Kbps - enough to see your e-mail and do low-level world wide web browsing.

However, basic Internet access for the majority is likely to arrive via the TV, with easy-to-use services geared to the poor and novice surfer - and consequently there will be a big software battle for this market. Competitors range from Microsoft's proprietary WebTV to Source Media's Interactive Channel.

General Cable is testing TV Internet access in four UK cities next year and Ovum research suggests that the TV will win the mass market, rather than the net computer, a cut-down PC or TV set-top with functionality on the network.

The author is the editor of Cable magazine, published by FT Telecoms

PSIN operators are no longer ignoring the Internet: many are already cashing in

Until relatively recently, established telecoms operators around the world tended to try and ignore the Internet, viewing it as technology largely of interest to the academic, research and hobbyist communities. Today, these operators simply can not ignore the Internet as it begins to eat ever larger mouthfuls of what many telcos consider to be their birthright businesses.

It is not that the Internet has as yet reached a size to dwarf the public switched telephone network (PSTN). According to figures recently released by the International Telecommunications Union (ITU), at the end of 1996 the number of Internet users stood at 60m - still some way behind the 741m telephone lines in use at that time.

But compound annual growth rates (CAGR) tell a different story. Between 1991 and 1996, says the ITU, the CAGR for main telephone lines was 6.3 per cent which is forecast to drop to 6.2 per cent in the period 1996 to 2001.

In sharp contrast, the 1991 to 1996 CAGR for Internet hosts and users were, respectively, 85.8 per cent and 67.9 per cent. The corresponding Internet figures for 1996 to 2001 are 45.8 per cent and 38 per cent.

Estimates of how many people will be hooked up to the Internet at the turn of the century vary quite widely. The fledgling "supercarrier" grouping of AT&T-Unisource quotes 200m in the year 2000, while the ITU plumbs for 300m the following year.

What is not disputed is the suggestion that the relationship between the telephone system and the Internet is set to change radically.

According to Vinton Cerf, senior vice-president for data architecture at US long-haul operator MCI and a speaker at this year's International Switching Symposium (ISS) in Toronto, in five years' time the volume of Internet data-only traffic will equal that of voice in the PSTN. Dr Cerf, widely acknowledged as one of the fathers of the Internet, also told the Toronto audience that at that stage it would be reasonable to view the Internet not as a parasitic network in relationship to the PSTN, but as a dominant network.

Pekka Tarjanne, ITU secretary-general and another ISS speaker, notes a number of key differences in the way the PSTN and the Internet function. The first is connection-ori-



There were 60m internet users by the end of 1996, according to ITU figures

ented, with a circuit established and held for the duration of a voice call; the second is "connectionless" with separate addressed data packets negotiating the network by whatever route is convenient at any point in time and being reassembled at the appropriate destination.

PSTN operators typically have obligations to provide universal service while Internet Service Providers (ISPs) are unregulated.

PSTN service is generally usage-based, while Internet use is flat rate or has a flat rate component.

Most worrying for traditional telephone operators, though, is the big difference in the end-user price of using the PSTN and the Internet for similar services. "There is an enormous gap between the cost and pricing of certain telecommunication services," observes Joseph Cornu, president of Alcatel Telecom.

"In some cases the cost of providing service is probably 10 per cent of the price. Because of the way the Internet is structured and the way the ISPs buy long-distance capacity at bargain rates, services can be provided at a price which is much closer to the actual cost."

One 1995 estimate quoted by the ITU is that the cost of sending a conventional 42-page fax between New York and Tokyo was nearly \$28, while the Internet e-mail cost of the same document was less than 10

cents. Even the prospect of less dramatic cost savings is persuading increasing numbers of business customers to switch traffic from the telco-operated PSTN into the Internet. Fax is an obvious candidate to be replaced by Internet e-mail.

The use of fax will begin to decline as e-mail becomes ubiquitous and accepted as a legal document," reasons John Birbeck, sales director for UK Internet office solutions supplier Network Alchemy.

Internet telephony is as yet in its infancy and there are issues of quality, availability and convenience still to be addressed. As Cornu observes, to approximate to the existing quality of the PSTN, Internet telephony will have to adopt some connection-like attributes and this will inevitably raise prices. Nevertheless, some experts warn that a substantial portion of telco PSTN call revenue could be under threat as voice, fax and voice mail migrate towards the net.

A new report from US-based market research concern Action Information Services says that use of the Internet for voice and fax calls could cost phone companies \$80n in lost revenue worldwide over the next four years.

In similar vein, Robin Duke-Woolley, a consultant with the UK's Schema telecoms consultancy, says: "The quality of the voice transmission is improving rapidly. For many residential users, where cost is more important than high quality, these services will be attractive. But the economics are also becoming worthwhile for business users."

Schema also points out that, as with fax, more than 60 per cent of business calls are one-way communications and therefore a prime target for voice mail services.

Established telephone companies seem divided as to the seriousness of the threat posed to their traditional core revenues. It is rare, for example, to find a telco which perceives Internet telephony as a serious stand-alone threat to conventional telephony. Rather the assumption is that it will be a component of future multimedia services across the net.

A rather less benign view of the Internet as a potential threat to traditional telco revenues is taken by Jos Gerrese, director of Internet-based services at AT&T-Unisource. "The main threat to telcos resides in the possibility that customers will start buying communications solutions via different channels, and public telecoms operators are relegated to the role of raw bandwidth suppliers," he says.

Other experts present an even more dire prospect, with those telephone companies that are unable or unwilling to grasp the Internet net being destined for oblivion in a very short time.

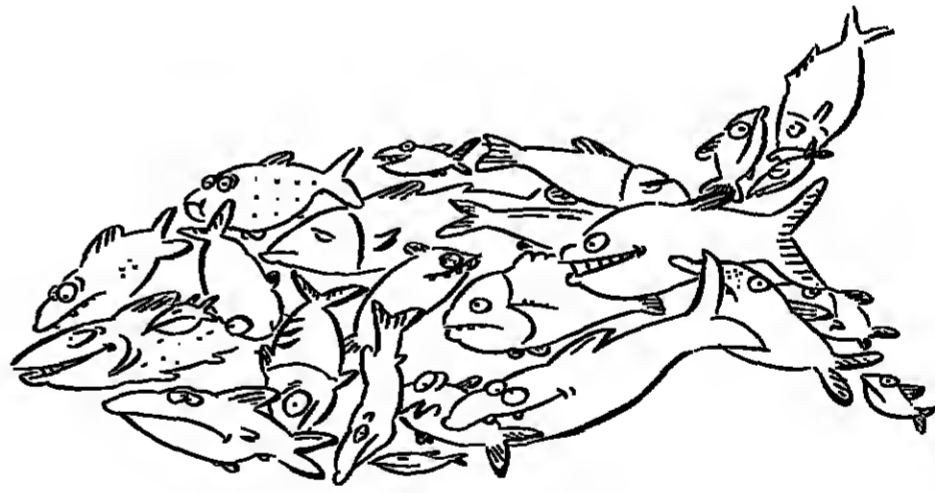
But it is possible to get all this out of perspective. Telcos in many locations are already benefiting from the many billions of Internet packets traversing their networks, even at local call rates. And telcos are also profiting from the Internet-driven demand for higher speed access than is provided by the conventional PSTN.

Sales of higher speed solutions such as ISDN are growing rapidly in a number of countries, while as yet pre-commercial digital subscriber line (xDSL) technologies provide the possibility of telcos delivering Internet service to customers at speeds of several million bits of information per second.

Meanwhile, many PSTN operators are getting into the Internet service provision act in a big way. For example, Gerrese cites a study by the Yankee Group Europe consultancy that foresees the Internet market share owned by European telecom companies rising from 36 per cent of the total at the end of 1996 to 47 per cent by the close of 1998. Some of the empires, at least, are preparing to strike back.

The author is senior technology editor of Global Telephony Magazine

user touch



IN GLOBAL COMMUNICATIONS ONE SUPPLIER IS BETTER THAN MANY.

As a multinational business, your global communications are mission critical. Only a truly international and independent single source provider can reliably deliver totally seamless solutions. You may already know that multi-vendor and alliance solutions do not deliver either quickly, effectively or globally. Our strength lies in our independence and specialisation. For you, this means we deliver what we promise. You work with one network, one team and one

common set of technologies, your best guarantee of reliability and quality.

Integrated Communications

We specialise in advanced communications for international business, providing integrated data, fax and voice services delivered through our own global network. Successful international clients such as Nestlé, Allergan, Henkel and thousands of others recognise Infonet as a stable and innovative supplier.

As do the many national telecom operators and global 1000 businesses whom we provide with international network services.

Global Intranets

In addition to being the leading provider of high speed global intranets, Infonet implements and supports leading workgroup applications, such as Microsoft Exchange™ and Lotus Notes™, in addition to other corporate intranet services. We support all this directly

from our local offices in 57 countries, with connections in over 180.

For 27 years we have been developing global communications solutions that really make a difference in everyday business. To find out more about the benefits Infonet can deliver - today and tomorrow - contact us as below.

infonet
MORE THAN A CONNECTION

Telecoms 14 Company in the news/European cellular market/new products

EUROPEAN CELLULAR MARKET REPORT • By Christopher Price

Strong growth to continue

Several key developments are expected to drive growth in the penetration rate

The number of European mobile telephone users has continued to rise sharply during 1997, with analysts predicting that liberalisation, falling prices and greater competition between operators will sustain the strong growth rate.

There were almost 7m new subscribers in the first six months of the year, a 20 per cent increase on the same period a year ago, taking the total number of European cellular phone users to 42m. This equates to a penetration rate of 34 per cent, a 20 per cent increase on the same period a year ago, taking the total number of European cellular phone users to 42m.

This equates to a penetration rate of 34 per cent, a 20 per cent increase on the same period a year ago, taking the total number of European cellular phone users to 42m. This equates to a penetration rate of 34 per cent, a 20 per cent increase on the same period a year ago, taking the total number of European cellular phone users to 42m.

The Finns are the most prolific users, penetration rates reaching more than 34 per cent, or more than one in three of the population. This is the highest rate in the world, although the other Nordic countries - Norway (32 per cent), Sweden (31 per cent) and Denmark (27 per cent) - are close behind.

Italy has been the fastest-growing market, accounting for more than a quarter of all the new subscribers in Europe this year. Penetration has grown from 11 to 15 per cent as Telecom Italia Mobile and Omnitel have signed up some 7m customers. Italy is now the country with the highest penetration rate outside of Scandinavia.

The UK has almost a 15 per cent rate; Germany 9 per cent; and France, at 7 per cent, has the lowest penetration rate in Europe.

John Jensen, telecoms analyst at Salomon Brothers, sees few barriers to continued growth in the penetra-

tion rate, which he believes will be driven by several key developments.

Primarily there is the liberalisation of telecoms markets in Europe. By the beginning of 1998, under European Union regulations, all EU countries are expected to have opened their telecoms markets to competition.

While there will be a few legions, such as Portugal, the privatisations this year of two of Europe's biggest former national carriers, Deutsche Telekom and France Telecom, show the pace of change being wrought on the industry.

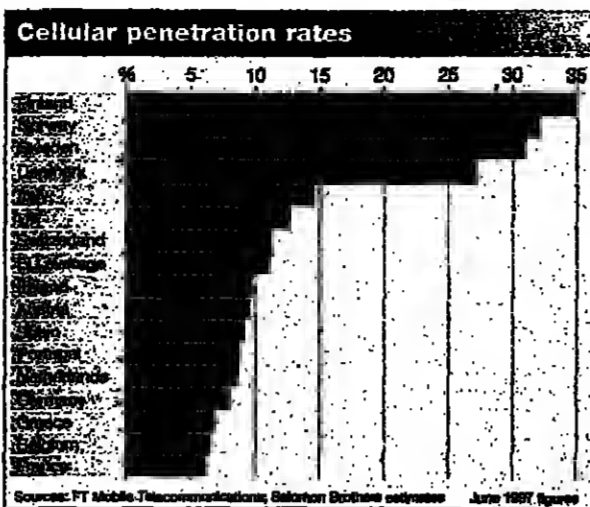
Although the European mobile market has been among the most open within the telecoms industry, liberalisation will bring further competition and contribute to lower prices.

But its greatest effect will be felt in the fixed-line market where the former state giants are at their most dominant. Mr Jensen believes that this will eventually have a significant impact on interconnect rates - the fees paid by the mobile operator to the owners of fixed-line exchanges.

"There is no justification for the high rates cellular operators pay for interconnect," says Mr Jensen. "They should be the same as for fixed-line traffic." He believes the current European average interconnect fee of around 8 cents a call could eventually decline to less than 2 cents.

Other developments driving cellular penetration include the convergence of the fixed and mobile markets. As technology increasingly allows users to merge their communications requirements into both a single number and fewer pieces of equipment, the mobile phone will be seen less and less as a luxury item.

In addition, as cellular



prices decline and converge with fixed-line prices, the operators' preference for fixed lines will disappear.

Salomon Brothers forecasts that the number of European mobile subscribers will increase from an estimated 50m at the end of this year to 90m in 2000. Average penetration rates will rise from 13 per cent to 23.6 per cent.

However, the rate of annual growth is forecast to fall from 41 per cent in 1997 to 16 per cent in 2000.

Italy's rapid growth this year has put it into first place as Europe's largest mobile market, overtaking the UK. The broker estimates that Italy's penetration rate, currently 15 per cent, will double by 2000. The number of subscribers will increase from an estimated 9.8m at the end of this year, to 17.6m.

Two of the other significant, rapidly-growing markets will be Germany and France. The broker estimates that penetration in Germany will grow from 6.9 per cent this year to more than 19 per cent in three years' time. The number of

subscribers will rise from 5.7m to 15.7m in that time.

French penetration is estimated to grow from 4.2 per cent this year to more than 18 per cent in 2000, while the number of users increases from 2.4m to 10.6m.

The UK, having lost the top spot to Italy this year, is forecast to slip to third place by the beginning of the next century, behind Germany. Salomon Brothers says the number of UK subscribers will rise from 8.2m to 12.3m in the next three years, representing penetration rate increase of 14 per cent to 21 per cent.

By the third quarter of this year, the UK was the only European country to add fewer subscribers than in the same period in 1996. It confirmed the country's position as the continent's slowest-growing mobile market.

Mr Jensen attributes this situation to the UK's relatively high mobile tariffs, which in some cases are 50 per cent higher than in Scandinavian countries. "UK prices are acting as a barrier to traditionally high rates of penetration growth," he says.

COMPANY IN THE NEWS: TELSTRA • By Christopher Price

Brokers were swamped

Transforming the culture of the former state giant is an enormous undertaking

The Australian government and the management of Telstra will have heaved a collective sigh of relief last month when, amid all the turmoil of the Asia-Pacific markets, stockbrokers were swamped by applications for shares in the telecommunications group's forthcoming flotation.

Some 2.5m applied for the part-privatisation of the former national carrier, which is expected to be valued at about A\$42bn. A third of the shares are being sold, raising some A\$1.5bn.

The strong demand for shares should ensure that the flotation gets off to a bright start. And while some retail investors are undoubtedly hoping to make a quick profit on their holdings, others are pinning their hopes on the longer-term outlook for the group.

Will such faith be justified? Telstra, like all the privatised telecoms giants, comes with an entrenched market position in an industry which is changing rapidly.

The challenges for the group is to stem the inevitable attack from newer, more nimble, rivals on its traditional areas of dominance, while developing new streams of revenues from the markets of the future.

Its latest results underlined this trend. In the 12 months to June 30, Telstra reported a 30 per cent fall in net profits to A\$1.62bn. The figure included an exceptional loss of A\$1.7bn, A\$1.13bn of which was earmarked for redundancies as the company seeks to compete more effectively against

the Australian market's new entrants. Telstra intends to shed 22,000 out of 70,000 jobs over the next three years.

However, underlying profits rose 17 per cent to A\$3.8bn, with Frank Blount, chief executive, underlining the growing contribution from the group's newer services such as mobile telephony and data management.

In his remarks to shareholders, Blount said that Telstra is the dominant force in the cellular phone market. It holds a 62 per cent share of the A\$3.2bn Australian market, one of the most developed and fastest-growing in the world. One in four Australians has a mobile phone, compared with an average of one in 10 people in Europe and the US. Telstra's main competitor is Optus, which has a 32 per cent market share. Vodafone, the UK cellular group, has a 6 per cent share.

However, the government is set to license further competition into the mobile market, with most analysts now forecasting a slow decline in the growth of Telstra's revenues from the sector by the turn of the century.

Nevertheless, ABN Amro Hoare Govett, the Dutch-owned broker which is joint global co-ordinator for the Telstra float, forecasts that cellular revenues will rise from A\$1.8bn this year to A\$2.7bn by 2001.

Prospects for another new market, cable television, look less promising. Telstra has stopped rolling out its cable network having reached 2.5m out of its 4m target while it evaluates the market. News of the strategic halt, announced in September, came as Foxtel, the joint pay-TV venture with Rupert Murdoch's News Corporation, reported losses of A\$212m.

Joint ventures have become Telstra's preferred method in its strategy to widen its influence. The company has already signed up to WorldPartners, the alliance which includes many of the world's largest telecommunications groups, such as AT&T, Japan's KDD and Unisource, the European telecoms consortium.

For the most part, though, Telstra has concentrated its external investments in regional telecoms interests. Some A\$200m has been put into a joint venture in Vietnam, while other investments have been put into Indonesia, India and China.

The Australian group has also signed a joint-venture agreement with International Business Machines, the US computer group, and Land Lease, the Australian financial services company. Telstra holds a 26 per cent stake in IBM Global Services Australia, which will offer customers comprehensive information technology services.

Newer services may be the source of future growth, but it is Telstra's dominance in the Australian telecoms market which will underpin its ambitions. The group claims to have a 99 per cent share of the basic access, local calls and fixed-to-mobile markets.

In the markets where it has faced the stiffest competition, in particular from Optus since 1991, Telstra still claims significant market shares. In the long-distance market, it has 81 per cent, while its international call market share is put at 66 per cent.

Hoare Govett says the pattern of market share erosion will continue. By 2002, the broker predicts Telstra's share of the international call market will decline to 62 per cent, while long-distance will fall to 66 per cent. Both

markets will continue to decline at about 3 per cent a year thereafter. Hoare Govett forecasts.

However, the local call market is unlikely to be so severely dented. In five years, Telstra will still account for more than 90 per cent of revenues from the sector, the broker believes.

There are several reasons for this. New entrants find it difficult to establish a presence in local telephony because of the lower margins and customer inertia. In addition, because Telstra sets the pricing benchmark for domestic telecoms services, new operators must attempt to undercut this in order to win over customers.

The established operator also has a huge array of market and customer information at its disposal, allowing it considerable flexibility in finding off new rivals.

Overall, Hoare Govett forecasts that Telstra will still retain 86 per cent of the total call revenues in the Australian market by 2001-2002.

Whether these forecasts are met will depend very much on how Telstra's management rises to the challenge of the commercial world. Transforming the culture of the former state giant, with its large-scale redundancies, is an enormous task. So too is making a success of newer markets - cable television has already proved difficult, although progress looks promising elsewhere.

Graham Milbrath, who is leading Telstra's European operations, says he is confident that the group's strategy of fashioning a new commercial culture will succeed. "The changes that are being made are part of a process that has actually been going on for the past five years. We are well placed to take the company forward from here."

NEW PRODUCTS • Compiled by Philip Sanders

Global reach is a reality

Global intranet, a common set of customised, end-to-end intranet solutions that can enhance communications for multinational companies, has been developed and launched by GlobalOne, the joint venture of Deutsche Telekom, France Telecom and Sprint.

Global Intranet customers will be able to access their company intranet from almost any location in the world. Dedicated access is available via frame relay networks in 35 countries and remote dial access in about 2,500 cities, on all continents.

The product will support a wide range of applications, including internet and intranet web hosting, electronic messaging services, groupware, browsers and directories.

GSM innovation
Nortel (Northern Telecom) this month announced innovative GSM radio engineering technology which will allow mobile operators to increase their network capacity by more than 100 per cent and improve the quality of calls for end-users.

Traditional methods of radio frequency planning limit the number of times a given frequency can be re-used in a network. But "fractional re-use" technology deployed by Nortel in several GSM networks in France, China and the US can now support more subscribers than a conventional GSM design could have achieved. The innovation reduces the level of investment and the operating costs for operators.

Brighter Soho
Dull grey boxes will be a thing of the past for Soho (Small Office Home Office) workers, if Xerox has its way. It has even managed to



Helping to make in-car calls safer: NEC Radio's hands-free car kit for use with its G9 GSM handset

make its new HomeCentre colour scanner, colour inkjet printer and colour copier look like a toaster. The £499 HomeCentre turns the family PC into a workstation.

The WorkCentre, a multifunction machine, also priced at £499, integrates colour printing, faxing, copying and scanning.

And the DocuPrint XJ4C colour inkjet printer, which costs £189, offers a low-cost alternative to laser printers.

Network software

New network design and planning software from Network Design House is the subject of trials in China (with Cable & Wireless) and Israel and is also due to go on trial soon in both Germany and Korea.

NetScene SDH, a planning tool for operators, equipment suppliers and the consultants who support them, has already been sold to BT.

Mark Wilby, managing director of Network which

has offices in London, Suffolk and Yorkshire, says the launch has been designed to coincide with widespread deregulation of the telecoms market.

Paging transmitter

A new Erms paging transmitter has been developed and produced by Glenayre. The compact GL-T8411EC has a range of features designed to make it user-friendly and efficient, including up to 16 channel operation, adjustable power output and modular construction for ease of maintenance, plus features which allow monitoring and adjustment of all controls, together with computer-aided diagnostics for improved serviceability.

Surf music
Music Choice Europe's new internet music service gives surfers a choice of four different music channels to listen to, uninterrupted by advertisements or DJ chat, while they browse the world wide web.

The new "surf music"

service is accessed via cable networks and was demonstrated at the European Cable Communications show at Olympia, London, last month by Music Choice and Telewest who have the service on trial in the UK.

Hands-free kit

Amid growing concern about the safety of using mobile phones in cars, NEC Radio Division has designed a simple hands-free car kit for use with its G9 GSM handset. The kit has an earpiece speaker, cord-mounted microphone, tie clip and jack plug which connects to the phone.

The phone can be set to answer incoming calls automatically, allowing total-hands-free operation, and the ring can be heard from the phone or the earpiece.

Mobile messenger

The latest James Bond film, *Tomorrow Never Dies*, will feature the same high-tech wizardry when it is released this Christmas - including



New World Payphones' Card Division is led by Danny Jennings (centre) with Gillian Gibson and Daniel Gray heading sales and operations

the P800 mobile messenger which is distributed in the UK by European Telecom. The P800, which weighs 1.5kg and fits easily into a briefcase, is demonstrated in the film when "M" receives and sends a fax in the back of her car.

The P800 (£949 plus VAT) can also access the internet, send and receive e-mail or scan hard copy documents into its memory. ... making it a useful communications tool for business travellers as well as secret agents.

Pre-paid card

New World Payphones, UK independent provider of private and public managed payphones, announced a £50m management buy-out and the launch of a new phone card division.

The company, which has more than 7,000 payphones in the UK, has invested in sophisticated computer technology to launch the "TalkAround" pre-paid remote memory card where the value is held in a remote database rather than on the

card itself. The user can recharge the card via an operator or voice response system with a valid credit card. The card can be used on more than 98 per cent of UK payphones and overseas from 86 countries.

Cellular star

Motorola has launched a new version of its StarTAC GSM cellular phone which weighs 93.6g and has a volume of 98cc. The company claims it is still the lightest and smallest GSM cellular phone in the world.

The special edition phone delivers 80-110 minutes of talk time with the slim 400mAh battery or 200-270 minutes' talk time - or 70-95 hours standby time - with a 900 mAh LiIon battery.

GSM Genie

The Genie, a tiny GSM phone launched by Philips Consumer Communications, the joint venture between Lucent Technologies and Philips Electronics, weighs only 95g and has a volume of 98cc.

With an extra-capacity

battery, it has a standby time of 165 hours and 160 minutes' talk time. It features a pop-out microphone which answers and ends calls automatically, plus Philips Voice Dial facility which allows users to make calls by simply speaking the name of the person they wish to call.

Text experiment

Text summarisation software is available from BT Laboratories' Online Shop. The experimental software, called ProSum, is available either as an online service costing 25p a summary or as a Microsoft Word add-on costing £48.

ProSum, short for profile-based summarisation, can summarise text as much or as little as the user needs. Users can also highlight words that are key (see <http://transend.labs.bt.com>).

Mini modem

French wireless technology specialist Wavecom has introduced the smallest GSM (Global System for Mobile) modem. The modem

measures 115mm x 56mm x 33mm and provides GSM short message service, fax, data and voice transmission, removing the need for portable computer users to carry a separate mobile phone. The modem can also be used in vehicle tracking, payphones and telemetry applications (eg drink machines). A GSM 1800 (PCN) version will be available soon.

Action replay

Customers of BT's audio conference call service can now get their audio conferences taped on-line. A service called Replay allows a customer to use the phone to play back the call, or rewind or fast-forward it.

The tape will be available two hours after the conference for a set-up charge of 26p, plus 12 pence per person per minute, and a storage fee of 27 p a day. BT can also produce a transcript on disc or paper, with a tape recording, in 24 hours for a cost of £3 a minute plus call charges of £1.50 per person and 18 pence a minute. More information: Tel: 0800 515550.



The tiny Philips Genie GSM phone features a pop-out microphone and weighs only 95g



Wavecom says its new GSM 900 modem, the WM01, is the smallest



The P800 has fax, e-mail and internet facilities - and stars in the latest James Bond film

مكتبة الامم المتحدة

A round-up of the telecoms industry: Joia Shillingford takes a look at the news, reviews and forthcoming events

NEWS IN BRIEF

Telcos urged to check systems

The International Telecommunications Union (ITU) says telecoms operators (telcos) should make their software and systems compliant with the year 2000 date format before the end of 1998. This would enable them to test the soundness of their international links with other telcos by the end of autumn 1998.

However, the ITU says: "Clearly, not every country will be able to follow such a tight timescale, which provides sufficient margin for corrective measures. This is why the timescale is more likely to be January 1999-October 1999."

The aim is to ensure that international calls can terminate in, or transit through, all countries after 2000.

Teleworking takes off

ICL is reversing the ageing trend and getting back former employees to help fix year 2000 software problems. One problem - where to get these staff - has been solved by technology.

Retired former ICL employees will telework from home. ICL says more than half the people it has invited back have agreed to teleworking. The bonus is they know the older software which needs fixing. ICL claims they will "hit the ground running".

Banking on multimedia

Canadian company Nortel has signed a \$20m contract to implement a multimedia network for Scotiabank in Russia. The project will be supervised in part by Canada's export credit agency.

Under the terms of the contract, Nortel will supply communications technology based on X.25, frame relay and Asynchronous Transfer Mode standards. The network will transmit voice as well as data.

Digital TV challenge

Digital television will break apart existing industry structures, according to two reports from research company Ovum.

Digital technology and low-cost production equipment will enable small, independent content owners to challenge the dominance of industry giants. Consequently the largest companies will need to consolidate their position and act as content aggregator and marketers rather than as content producers, says Ovum.

Watching you, watching me

BT is using a neural network-based surveillance system to cut theft from its vehicle pounds. This used to amount to £5,000 per site per year. But petty crime has virtually stopped at sites where the Witness Surveillance system from Cambridge-based Neurodynamics is used.

What a card

A group of Dutch banks including ABN, Robo and SNS is to launch a multifunction electronic purse, loyalty and debit card - Easychip - which can also support as many as 45 store loyalty schemes. It will enable the banks' customers to get loyalty points when visiting local shops such as the butcher or bakers. The number of points will be displayed on in-store terminals connected to an electronic funds transfer network. The system was supplied by ICL Precision Retailing.

TELECOMS FUTURES

New technology for era of mobile commerce

A new breed of mobile phones - with a range of fresh functions - is on the way

Mobile phones have freed staff from the office, but suppliers are starting to tempt them with extra services. UK computer services company Logica believes that within three

years, 5.1m Europeans will be spending more than £2.7bn a year by means of mobile commerce.

"People will use new breed mobile phones to send and receive electronic cash, tickets and loyalty points. For example, commuters will request tickets for public transport, and have them delivered electronically into the phone without the need to queue," says Kevin Duffey, a consultant at

Logica. The tickets will then be read by new smart card barriers which are already being installed in some cities. Tom Alexander, Cellnet's head of business partnerships, says:

"Customers have already shown their interest in mobile commerce by purchasing the Barclaycard-Cellnet mobile phone... The phone, which simply displays the balance of the customer's bank

account, sold over 20,000 in the first six weeks after its April 1997 launch."

Other mobile commerce applications could include: "Seeing loyalty points displayed on the screen of the mobile phone as they are awarded, and paying for phone calls themselves with electronic cash held in the mobile phone," says Andy Tobin, director of smart-card development at Logica. "Bank systems could

automatically call the customer's mobile overnight to load the latest account information on to the phone, giving the customer accurate information without the inconvenience of making an enquiry," he adds.

Mobile commerce - defined by Logica as the delivery of electronic commerce capabilities directly into the hands of the user via wireless technology - will grow as companies

including Nortel and The Technology Partnership-STNC Enterprises develop phones that can download software and data from the Internet.

Developments in technology that make multi-function smart cards possible will also fuel the trend - as smart cards are used in mobiles. Tony Milbourn, head of computer communications at the Cambridge-based

Technology Partnership, says its WebWalker phone "is more than just a mobile; it becomes a newspaper, a train timetable, a restaurant guide, a Yellow Pages; whatever you want."

Suppliers are also devising solutions for people tired of constant travel. BT Mobility Solutions offers a service which allows PC users involved in a conference call to look at the same presentation on the Internet.

SMALL TALK

Karaoke on Demand

The demand for new technologies is only exceeded by the need for new names

If you are having trouble keeping pace with the terminology... you can put VOD (Video on Demand) on the back burner... the latest acronym is KOD - Karaoke on Demand.

A KOD trial is under way in Hong Kong where Hong Kong Telecom plans to offer a service next year, with a target of 500,000 homes by the end of the century.

Subscribers will pay about HK\$194 to rent a black box which will allow them to receive KOD, VOD and home shopping via the phone network. Chart toppers will cost extra.

ADSL (asynchronous digital subscriber line) technology will boost phone network capacity to handle the volume of data.

E-mail hiccup

A small change to British Petroleum's e-mail software, Microsoft Exchange, caused many of its messages to be sent to a company mailbox in Africa for a week. And the problem got worse before it got better because Exchange



With Karaoke on Demand, enthusiasts will be able to brush up their karaoke performances in private at home before giving up their day jobs... unlike Iggy Wallace, played by Cameron Diaz (below), reluctantly the centre of attention on stage in the Columbia TriStar film 'My Best Friend's Wedding'

replicated the change to the African e-mail directory to other BP Exchange sites.

How much?

What's the difference in cost between a three-minute long-distance call from a mobile and one from a fixed

phone? In Italy, the mobile call costs 66.5 per cent more than the call from a fixed line, says French research company IDATE.

Daylight robbery? Not really. In other parts of Europe, the gap is even wider. It is biggest in the UK and Sweden, but that is

because fixed phone prices are lower.

Electronic papers

In Britain, the Evening Standard is to relaunch its Internet web site, and The Guardian newspaper is going online with additional news.

BACKCHAT

Students stay in touch

Manchester Metropolitan University's business studies department has found a new way of keeping in touch with students who are on placements.

It is using Conference Call Presenter, a BT service that enables people engaged in a conference call to view a private presentation on the Internet from their personal computers.

The presentation sits on a web site but is password-protected so that only people with the password can view it.

Carol Forbes, a senior lecturer at the university, says: "Every year a team of academics has to spend a large proportion of their time travelling the length and breadth of the UK to see our business studies students on placements."

"We visit every organisation and student to check their progress and discuss various course requirements.

As you can imagine this is expensive for the department and can be very time-consuming."

Manchester Metropolitan used the product initially on a trial basis and Ms Forbes says: "After some initial nerves, the technology worked extremely well and the students were keen to get involved." In a poll, 95 per cent of the university's students said they had used the Internet before.

The university had been thinking about dropping its second assessment visit to students because it was changing the way it marked them. It no longer required students to complete a work project jointly marked by the visiting lecturer and the employer. And it had a resource problem both in terms of manpower and travel costs.

After trials with Conference Call Presenter, the university has decided to use the product next year to

replace the second visit to students.

Ms Forbes, a lecturer in accountancy, used the Internet presentation to advise students on how to complete their work placement journal - similar to a diary - and how to apply business theory to the workplace.

The university has not yet worked out how much money it will save, but Ms Forbes points out that costs for the new system will be low because students' employers will pay for the students' conference calls and Internet access, with the university only having to pay for one call plus any set-up charge.

There used to be more than 90 students to visit, and in some cases visits cost more than £100 each including fares, accommodation and hotels.

Now the university is considering using the technology to offer distance learning courses to companies.

AGENDA

Dates for your diary

November: Official documents on effective competition in the UK, telecoms for disabled people (consultation document), guidelines on business cases for new services. Statement on calls to mobiles.

Events: directory inquiries workshop; advisory committee on telecommunications for disabled and elderly people - meeting at Ofcom; director-general of Ofcom to speak at Telecoms Managers Association, TMA Conference (see below).

November 18-21: IDATE 97 International Conference, Montpellier, France. Tel: 33 (0)4 67 14 44 04.

November 20-21: Twenty years or the Prehistory of Cyberspace... Shaping the Future, IDATE. Tel: +33 467 144444.

November 24-26: TMA30: 30th annual TMA Conference (Brighton, UK). Telecom Managers Association. Tel: 01373 361284.

November 24-25: Deregulation, Licensing and Interconnection in German Telecommunications (Frankfurt). SMI. Tel: 0171 253 2222.

November 24-26: Mobile for

the Mass Market (Rome). IBC UK Conferences. Tel: 0171 453 2700.

November 24-26: Pan-European Call Centres (Amsterdam). The Yankee Group Europe. Tel: 01923 246511.

November 24-26: Arab Telecommunications Forum 97 (Bahrain). Telecommunications Development Directorate of Telecommunications at the Ministry of Transportation. Tel: +973 659444 or fax +973 633544 (Dr Rasheed Ashoor or Mr A. Shabed Al-Sateeh).

November 25-28: Network Computing (London). Business Intelligence. Tel: 0181 873 3355.

November 26-29: Telecom Malaysia (Kuala Lumpur). International Expo Management. Tel: +65338 2633.

December 1-2: FT World Telecommunications (London). Financial Times Conferences. Tel: 0171 896 2626.

December 2-6: Expo Comm China South 97 (Guangzhou), China, E J Krauss & Associates. Tel: +1 501 493 5500.

December 4-6: GSM India (New Delhi). IBC UK Conferences. Tel: 0171 453 2700.

December 8-9: Next-Generation FEX (London). IBC UK Conferences. Tel: 0171 453 2700.

December 9-11: Online Information '97 (London). Learned Information Europe. Tel: 01865 388 000.

December 9-11: Communications India-Broadcast Cable & Satellite India (New Delhi). FEL. Tel: 0171 831 3015.

January 22-23: Tomorrow's Office Today, a conference on flexible working practices. International Communications for Management-IBM.

Tel: 0171 499 0900

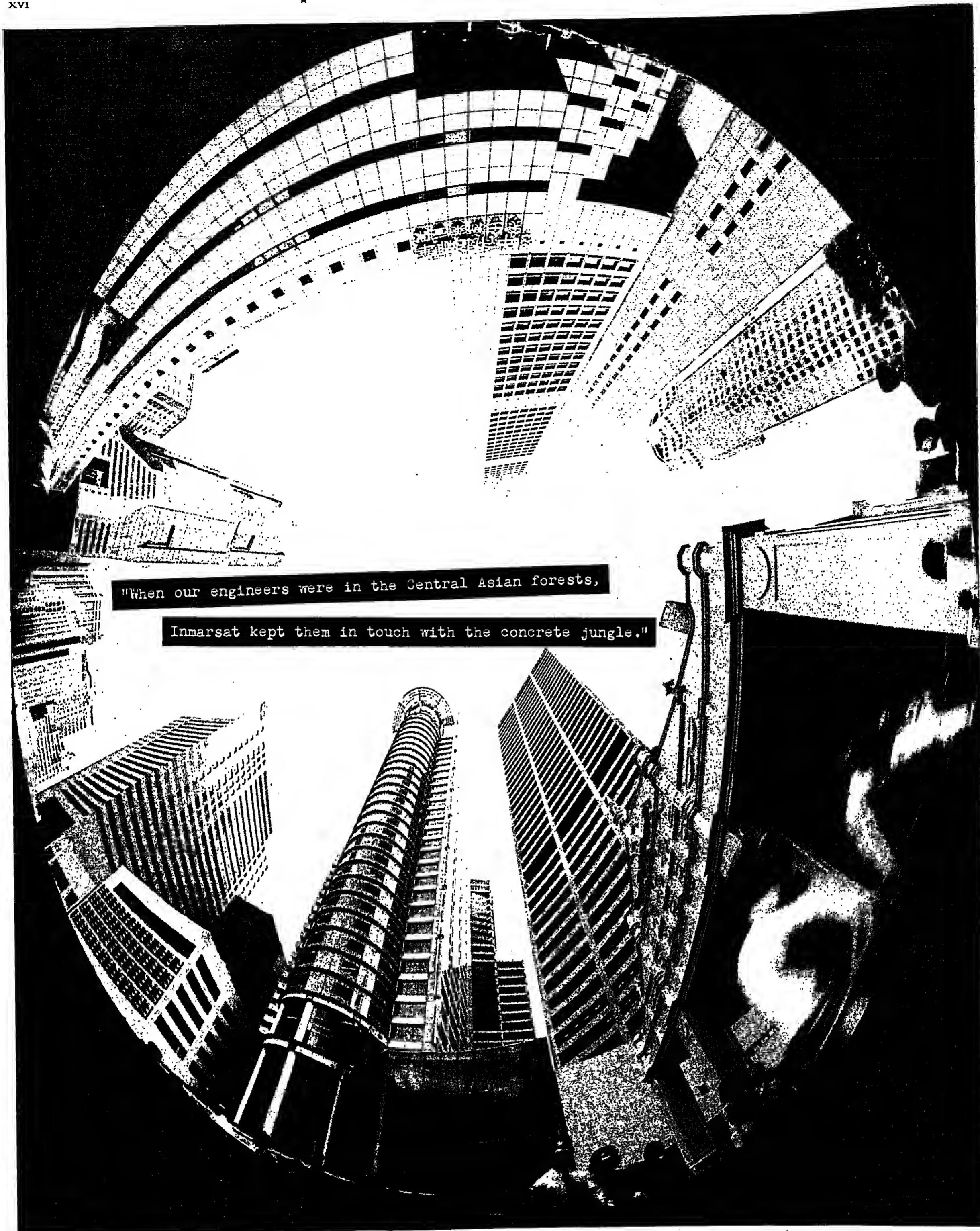
January 26: How to Handle Work-Related Upper Limb Disorder Claims (London). IBC UK Conferences. Tel: 0171 453 2700.

February 17-19: The 1998 GSM World Congress (Cannes). IBC UK Conferences. Tel: 0171 453 2138.

Download information from the Internet in almost half the time, with Rockwell's K56flex™ technology.

Rockwell

http://www.rockwell.com



"When our engineers were in the Central Asian forests,

Inmarsat kept them in touch with the concrete jungle."



When mechanical failure delayed their Namsong River diversion project in Laos, the Hazama Corporation of Japan faced an even bigger problem: the site was in deepest jungle, miles from any reliable conventional communication facilities.

Using Inmarsat's direct satellite technology, the company's offices and the site were able to stay in constant contact by phone, fax and even e-mail, ensuring that spare parts were quickly shipped out. Of course, it's not just construction companies who benefit from Inmarsat. The service is also proving indispensable to

people like corporate executives...oil industry businessmen...truck drivers away from base...government officials...anyone who needs to stay in touch wherever they are.

What's more, today's satellite equipment is as portable as a notebook PC and the service affordable enough to use at any time. So if you want to stay in contact wherever you are, make contact with Inmarsat.

VIA
INMARSAT

FINANCIAL TIMES SURVEY

THE LOTTERY BUSINESS

The UK's National Lottery is now a part of its culture. Maintaining that success will not be easy, says Scheherazade Daneshkhu

An institution with a winning formula

There are few people in Britain who have resisted chasing the finger of fortune in the three years since the National Lottery's launch. More than 90 per cent of the population has played after the first televised on-line draw in November 1994. More than 80 per cent are regular players.

The National Lottery, the UK's first for more than 150 years, has become a national institution, part of daily life and culture, according to Chris Smith, minister for culture, media and sport. It is the world's largest lottery.

Its impact has been felt in both social and economic terms. Socially, it has introduced gambling to a wider audience. New players have been attracted by its low stakes/high rewards formula. It has prompted a change in Britain's strict gaming laws which has made other types of gambling more accessible.

The Lottery's high profile launch challenged the philosophy behind UK gaming legislation which outlawed operators from stimulating demand. Its television advertising campaign provoked an outcry from the bingo, pools, betting shop, casino and fruit machine industries. They have successfully lobbied for more relaxed legislation.

Betting shops have been

allowed to open up their shop fronts, casinos have been made more accessible and fruit machines are more user-friendly.

These changes have encouraged more people to gamble. About 70 per cent of the UK's population used to gamble before the Lottery's launch, according to Mintel, the market research group which estimates that the proportion is now more than 90 per cent.

Although the Lottery has taken market share away from some gambling rivals - notably bingo and pools - it has been instrumental in increasing the size of the gambling market. Arthur Andersen, the accountant, estimates that the amount spent on gambling in the UK has almost doubled from £9bn before the Lottery's launch to £17bn.

These increases have provoked fears of gambling addiction, particularly among the young. Gamblers

Anonymous, the telephone helpline, says there has been a 17 per cent increase in gambling addiction since the Lottery's launch.

"The National Lottery has made gambling part of mainstream culture," according to Paul Bellringer, director of GamCare, a national helpline for problem gamblers, particularly teenagers, set up by the government. "A few years ago gambling still had a stigma attached to it, but now young people will grow up seeing gambling as very normal. Maybe that is healthy but there is bound to be some knock-on effect."

Financially, the Lottery's impact has mainly been on individual sectors rather than the economy as a whole. "People haven't diverted large sums of money from one source but from a number of different sources," according to Simon Briscoe, UK economist at Nikko Europe. "If you look at whether the spending has

been great enough to affect retail sales, gross domestic product or inflation, the answer is no."

The sectors most affected have been pools and bingo, where sales have dropped steeply and jobs have been lost. Charities have also been affected.

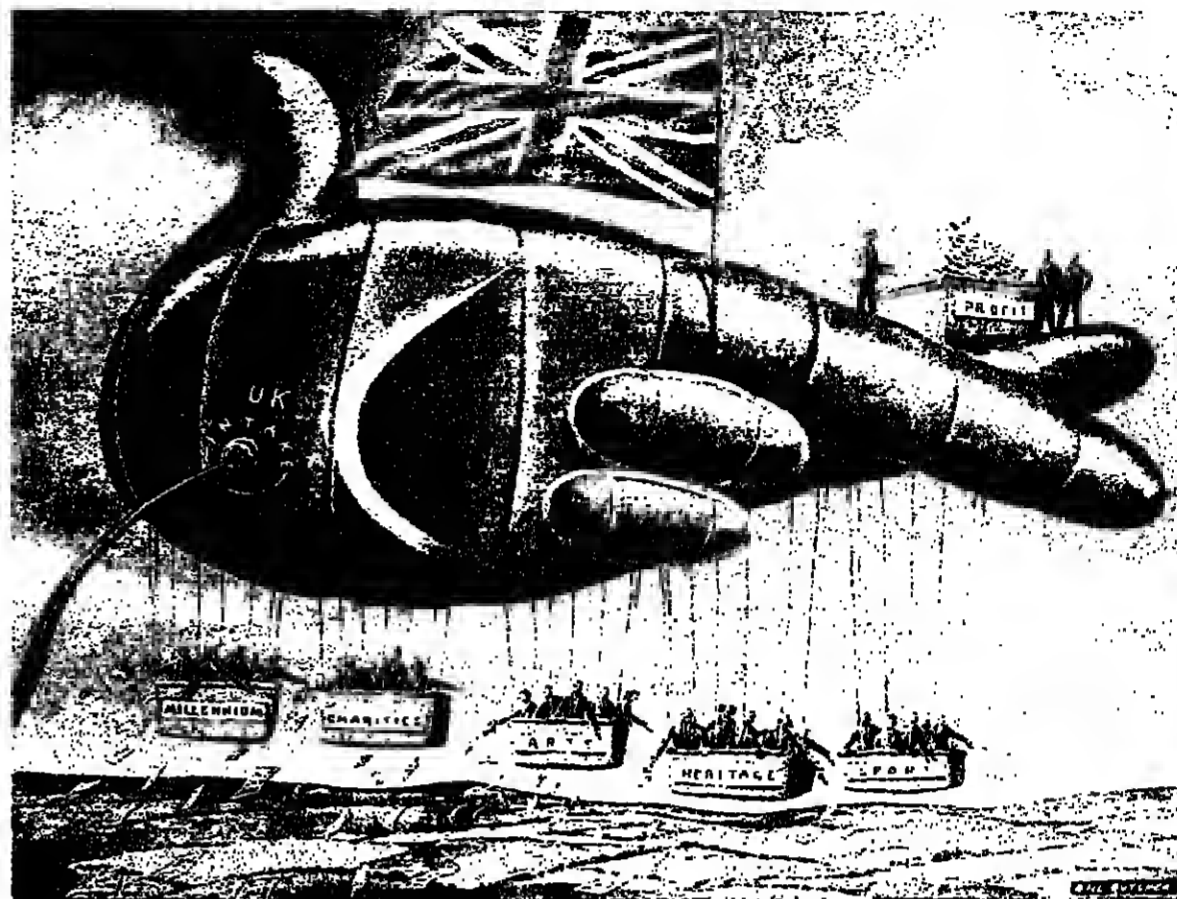
A recent survey of 100 charities by Barclays Global Investors published in NGO Finance, found that more than half of charities had suffered falls in voluntary income from the public. How far this was connected to the Lottery was open to question, said the report, but those who denied a link had "yet to put forward a credible alternative explanation" for the difficulties suffered by well-established, household name charities.

Charity managers are, however, interested in the Lottery as a source of income - the National Lottery Charities Board became one of the UK's most important charity funders overnight.

The Lottery has also breathed life into small independently-owned newsagents, which were losing out to supermarkets.

Camelot, the consortium which won the bid to operate the lottery for its first seven year term, can point to its successes. It has raised

£4.2bn for the arts, heritage, charities, sports and Millennium projects. Since its launch it has produced £11.4bn of sales, 21m winning tickets - albeit most of them for a £10 prize. It is on track to surpass by £1bn its target of raising £9bn for good causes.



It is the world's most efficient lottery in terms of the percentage of sales returned to good causes and government in duty, according to Terri La Fleur, president of TLF publications and an expert on world lotteries.

But the Lottery has never been far from controversy - from those who despair that most of the revenues are raised from the least well-off

in society for mainly elitist projects such as opera or the Churchill papers, to those who criticise Camelot for making too much profit or exploiting its monopoly.

And although it is the world's largest lottery, it lags 16 others in terms of per capita lottery expenditure.

Labour, which promises to tighten the Lottery's regulation and curb the profits of its next operator after its White paper in July, has also injected controversy by seeking to establish a sixth good cause raising money for health, education and the environment.

Almost half-way through its licence period, the Lottery is under pressure to maintain sales at a time when its novelty value is wearing thin and other gambling industries are fighting back. Sales have fallen from £5.2bn in the year to March 31 1996 to £1.7bn this year. Instant scratchcards peaked at above 40m tickets a week soon after their launch in March 1995 but have since dropped to a weekly 15m.

Camelot hopes to galvanise Instant's sales with a televised game show early next year after launching a mid-week draw this year to raise sales of tickets. New games launched by

other gambling operators to regain sales lost to the Lottery are threatening to cut into the Lottery's market. Camelot recently dropped legal action to have the 18's numbers game launched by the UK's three largest bookmakers declared illegal after losing its private prosecution in August.

However, the government's decision last week to ban *Prolet*, a rapid draw Keno-style game has come as a relief though Inter Lotto, the charity lottery manager, will still launch the game in pubs and clubs next week until the ban is imposed to the summer.

HOW CAMELOT WORKS • by Scheherazade Daneshkhu

Peaking early poses particular problems

Initial excitement has passed and the challenge will be to maintain motivation

When Camelot fought off seven opponents to win the Holy Grail of the National Lottery licence three years ago, even it underestimated the value of its prize.

The knights at the round table, in the shape of Camelot's five shareholders - confectionery giant Cadbury Schweppes, De La Rue, the security printer, electronics group Racal Electronics, computer maker ICL and G-TECH, the US lottery operator - have enjoyed substantial profits sooner than expected.

Ticket sales reached

£5.2bn in the year to March 31, 1996 - the first full year of operation - a figure the consortium did not expect to reach until year three.

Peter Davis, director-general of Offlot, the government's lottery watchdog, wrote to Conservative MPs in September 1994 that he expected Camelot to make a net loss in the early years of the licence.

Instead, Camelot made after-tax profits in the first year of £51.1m - virtually equivalent to its £50m original investment - and it declared its first dividend two years ahead of schedule. Post-tax profits the following year - to March 1996 - were £46.8m after a fall-off in the sale of scratch cards.

The success of the Lottery means more money has been distributed in prizes and to

good causes. But more has also stayed with the operator. Camelot's profits only amount to less than 1 per cent of sales - after covering running costs. But given high sales, even that small margin should produce profits of roughly £500m over the seven years to 2001.

"The Lottery peaked earlier than we thought it would. We always thought it would be this high but we didn't think we would get this high this fast," says Guy Snowden, chairman of G-TECH, the largest operator of automated lotteries, running 79 lotteries on behalf of governments. "I think we are adequately paid for the risk we are undertaking."

Camelot could have been fined £1m a day if it had missed its November 1994 deadline for launching the

lottery. It also estimates that the five partners could have lost £200m in equity investment and bank guarantees if anything had gone wrong.

The shareholders also have contracts to supply goods and services. One of the strengths of the consortium's bid was that the members could each contribute to the running of the lottery.

ICL, Racal and G-TECH provide the on-line terminals and computers while De La Rue has printed the Instant tickets and provided consultancy. Cadbury Schweppes has given consultancy services on consumer marketing. Camelot says the value of these contracts is confidential.

Although Camelot's 1 per cent take cannot be altered under its licence terms, its

unexpectedly high profits have raised questions. These exploded into a public row in June after Camelot disclosed a 40 per cent rise to £2.35m in payments to 10 directors for the year to the end of March 1997. Chris Smith, minister of culture, said that public confidence in the Lottery could be eroded if directors were seen as paying themselves too much.

Labour has, however, backed down on its manifesto pledge which stated that it would seek a not-for-profit operator, paving the way for Camelot to rubid once its licence expires in 2001. In July's white paper, which is expected to result in a parliamentary bill next month, Labour said its aim was to maximise the return to good causes and remove "unnecessary" profit mar-

gins. The next operator would also face curbs on executive pay.

Camelot will be more tightly regulated. Peter Davis, director-general of the National Lottery, will be given powers which he requested to fine Camelot. He regards his current sanctions - court injunctions and licence revocation - as too draconian. Some licence breaches have however been serious. Last year there was a 7 per cent shortfall in the number of shops in which Camelot was obliged to install terminals. Moreover, the figures provided by Camelot turned out to be unreliable, according to Mr Davis who said that had he been empowered to impose financial penalties on Camelot he would have done so.

The National Audit Office

is also likely to be given powers to inspect Camelot's accounts. Earlier this year, a Commons public accounts committee said it was "concerned that there were obvious defects in the verification procedures for certain types of payments" a year after the Lottery's launch.

Tim Holley, chief executive of Camelot, is strongly opposed to this measure, claiming that the Lottery is already more tightly regulated than other gambling industries. "We've got a regulator and he's got access to the books. The National Audit Office by practice doesn't have access to the books of private companies."

Despite the prospect of increased regulation and a curb on profits, he says Camelot is determined to bid again.

Shareholders	%
Racal	22.5
GTECH	22.5
Cadbury Schweppes	22.5
De La Rue	22.5
ICL	10.0

Source: Camelot

While its prospects of becoming the next operator of the Lottery remain uncertain, Camelot is trying to carve out an independent future for itself. It is looking at opportunities overseas to act as a consultant or as an operator of lotteries.

Mr Holley admits that part of the rationale is to retain staff who might otherwise leave as the licence termination date draws closer.

The company is also devising a long-term incentive scheme to retain executives. "The first few years of operation were the most exciting. Now it's a question of maintaining efficiency and the motivation of the team to the end of the licence period."



Wherever people play the lottery, there's a good chance GTECH is helping to make it happen.

In 79 countries and states across 5 continents, we operate within each territory's culture and terrain. So every player can share the same dream of winning, whether they're in the High Street or the Highlands.

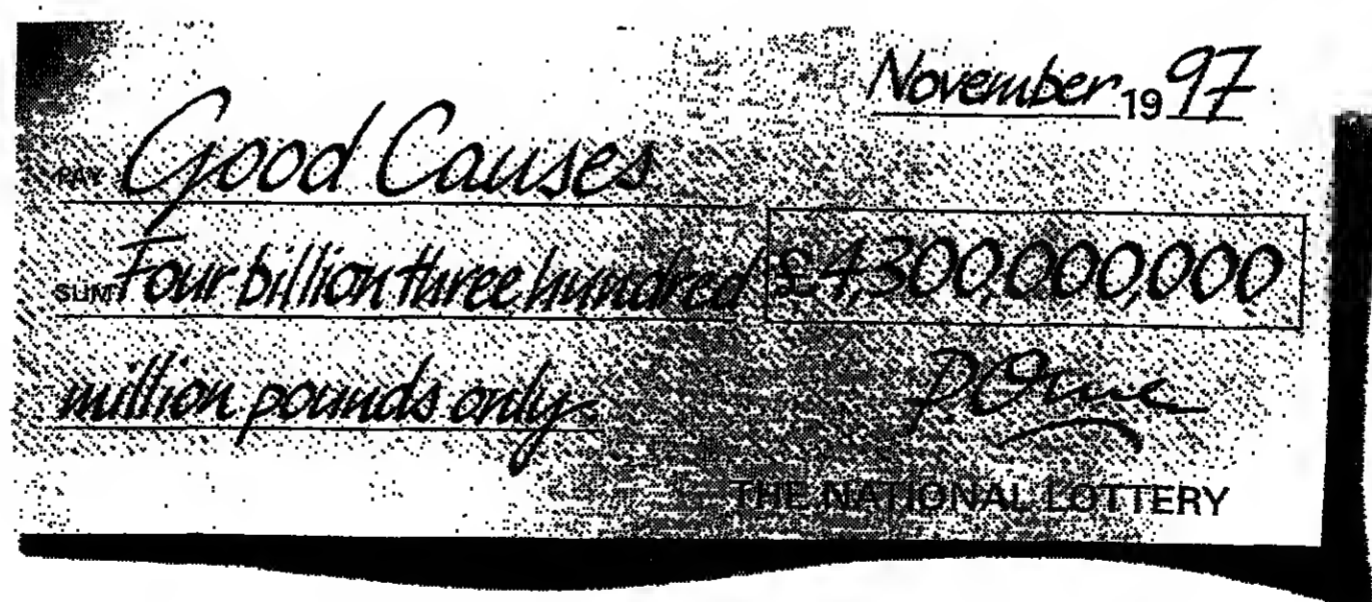
From devising new software and games to pioneering transaction and network technology, GTECH has unrivalled experience and expertise worldwide.

We are proud to play our part in the success of the UK National Lottery, helping them to raise revenues for the good causes. Making sure that people can always play, wherever they happen to live.

EVERYBODY WINS

GTECH
CORPORATION

EVERYONE IN THE UK SHOULD BE DELIGHTED TO SEE THIS WEEK'S NATIONAL LOTTERY NUMBERS.



In the three years since its launch The National Lottery has raised over four billion pounds for Good Causes. The National Lottery is a key part of UK life with around two-thirds of the adult population playing regularly every week. This has meant that over 28,000 projects across the UK have benefited from its success. From restoring bells in rural churches to unique national projects to celebrate the

millennium, the range of schemes funded has been diverse. The groups supported have also covered the rich spectrum of life in the UK. From village cricket clubs, to disabled swimming groups, to our leading art galleries and museums. We are delighted by how much has been raised for the Good Causes, and would like to thank all the players of The National Lottery who made this possible.



CAMELOT

BRINGING YOU THE WORLD'S LEADING LOTTERY

About 28% of The National Lottery proceeds will, over the period of Camelot's operating licence, go to the Good Causes as designated by Parliament, but this funding is not a substitute for direct donations. Camelot Group plc operates The National Lottery under licence from the Director General of The National Lottery. © Camelot Group plc 1997. The National Lottery is a trademark of the Secretary of State for Culture, Media and Sport.

4 THE LOTTERY BUSINESS

TELEVISION • by Maggie Brown

A happy marriage of convenience

Televised draw is the stuff of viewers' fantasies and a finely-spun feelgood factor

Television has been vitally important in sustaining the success of the National Lottery over the past three years. This is because buying a ticket and having a flutter have become a mass market national activity, in which around 30m people take part every week.

Having a live televised draw on Saturday nights clearly injects a degree of dramatic excitement and involvement. But it is not the only important element.

Camelot needs the Lottery to be seen as a positive part of British life and no broadcaster can deliver this better than the BBC.

In fact, Camelot's close and apparently happy relationship with the UK's public service broadcaster, is a critical – but also controversial – factor in its robust health. "We are not just selling tickets, we are positioning ourselves as a brand. We need the educational side, to show where the money on good causes is going," says Camelot spokesman, Louise White.

The BBC cannot take advertising, but it enjoys a remarkable freedom otherwise when devising programming. And it delivers an aura of all important respectability. In truth, the BBC-Camelot link has elements of a marriage of convenience: both sides have now a near perfectly balanced need of each other.

Back in 1994, the BBC won the rights to exclusively broadcast the Lottery, within a specially agreed programme, much to the dismay of its rival the (advertising supported) network, ITV. One reason ITV could not compete was that Camelot also wanted a commitment to launch a second midweek programme built around a



Mystic Meg: a constant factor

scratch card game show which involved randomly selected players. This ran counter to the independent Television Commission rules at the time, which require terrestrial broadcasters to exercise total editorial control of any programme.

Cynics might also say the arrangement suits Camelot, because while it can always buy into the advertising airtime on the commercial channels, the BBC would otherwise have remained a closed book.

Lottery broadcasts began, on November 14, with a special hour-long programme, in which Noel Edmonds drove a lorry of bullion from a bank vault to the studio. It was watched by 22m. But striking the best long-term format took time, although Mystic Meg remained a constant element.

Under the contract, for which the BBC has been criticised for paying around £500,000 a year, it was initially committed to taking the draw, physically, around the country, to emphasise it was a national event. But this turned the Lottery into a glorified outside broadcast, which lacked fizz.

By March 1995 Michael Legge, head of BBC light entertainment, had settled for a fixed National Lottery London studio. The BBC mix

of fun, glamour and information is well liked by the operators, who are delighted that audiences overall average above 10m. In turn it has been able to attract top bands and film stars, to perform the vital task of starting the balls rolling. Mr Legge describes it as "a test pole" holding up BBC's Saturday night schedule. The perceived success is why the BBC's contract was extended in June, for a further year, without opening up the exercise to anyone else.

But there is bound to be competition for the final three-year period of the contract when talks open next year. Camelot itself explained that the year-long extension was a cautious response in a rapidly changing TV environment where interactivity is drawing closer. ITV confirms it remains very interested.

This is because the Lottery regularly takes more than 50 per cent of the available audience, offering a huge advantage to the host channel which will hope a good proportion of that family audience will remain with it. Even though viewing leaps only in the programme's final moments to a peak of 17 to 18m viewers, at a time of fragmenting audiences that is a prize worth fighting over.

MARKETING THE DRAWS • by Cathryn Atkinson

Betting on a unique formula

When it comes to promotion, the lottery shows are more than news broadcasts

The introduction of the National Lottery in November 1994 was the largest consumer brand launch ever marketed in the UK. A staggering £38m was spent on a promotional campaign that included hundreds of hours of media announcements and posters put up at 3,000 locations.

The launch achieved blanket coverage in the tabloid and broadsheet press, rivalled, perhaps, only by pop stars and royalty. And when a single ticket-holder won £17.8m within weeks of the first draw, the fervid level of interest reached frenzied proportions.

Three years on, the "crossed fingers" National Lottery logo has achieved 99 per cent brand awareness in the UK for the organisers Camelot. With a 23-strong

marketing department and the weight of advertising giants Saatchi and Saatchi behind them, promoting the lottery seems easy.

Annual marketing expenditure is around 1 per cent of sales – the exact figure is not made public by Camelot. A code of practice is provided by the lottery's regulator, Oflot, providing strict guidelines for advertising.

Yet the actual heart of the lottery experience in the UK remains the televised draws on BBC1 on Saturdays and, more recently, Wednesdays, which also provide an unparalleled self-promotion opportunity. As well as the draw itself, the 30-minute programmes consist of a combination of light entertainment, a look at some of the good causes that are lottery funded and provide an opportunity to hear past winners tell their stories.

Responsibility for programming is split between Camelot, who take charge of the formal 30 second draw, and the BBC – who retain editorial control over the

remainder. Camelot's two broadcast managers work in the studio with the BBC production team on a day-to-day basis to develop and enhance the show.

Rawdon Clover, Camelot's marketing manager, says Camelot has full "input on things that affect the National Lottery brand".

"Industry experts were involved when we first looked at the format," he says. "Many were sceptical about a programme lasting longer than five minutes, but a brand it was important to use it by featuring winners and looking at projects. To go to a five minute programme now would be a retrograde step."

But the Lottery programme is not necessarily an automatic licence to produce higher ratings, says Michael Legge, the BBC's head of light entertainment. "It's continual R and D. At the same time we'd be mad not to continue to plan new shows with Camelot. We're not complacent."

He says the midweek programme does not achieve

viewing levels as high as the Saturday draw, but believes viewer habits differ according to the time of the week and that this is reflected in ticket sales. He adds: "I am proud of the fact that no one else does this sort of programme. It has become a national institution. Other countries treat their [lottery] shows like a news service."

The UK model would not suit every country. A spokesman for the Irish national lottery, prior to Camelot's launch, the most successful weekly lottery in Europe, describes their three minute programme as "merely informational". Instead of an entertainment-style draw, two game shows – the contestants for which are chosen from winning scratch-cards – are run at regular intervals.

This strategy, he says, which has been in place for 11 years, has resulted in more than 80 per cent of the population taking part in the lottery and almost 100 per cent brand recognition.

"There isn't the same level of razzmatazz as in the UK, though the core nature is similar," he says, "but we do keep in touch with what the players want. Once people know how to play the game then it is just a matter of reinforcement."

Camelot is well aware of the need for reinforcement. Rawdon Glover says: "We are sustaining a 30 minute show and drawing 10m viewers. Our future goal is to sustain that interest and, in an ideal world, to build our audience base back to the 14m it was a year ago."

Chris Cleaver, a director with branding consultants Interbrand Group, calls the National Lottery "an example of a very interesting brand that has to be admired by the industry," adding that any problems experienced by Camelot tend to be attached to the perceived ethics of the product.

"The BBC, being who they are, lent it a little more dignity," he says, "but Camelot also used the rest of the media support well."

IMPACT ON OTHER FORMS OF GAMBLING • by Scheherazade Daneshkhoo

Levelling the playing field

Rival industries are looking for fair means to shorten the odds against them

There has been much talk of four play on unlevel playing fields since the National Lottery's launch. Football pools, bingo clubs, betting shops, fruit machines operators and casinos have all been angered by the promotion of the National Lottery despite the UK's strict gambling laws.

The rival gaming industries, particularly pools and bingo, have been hurt by the arrival of the Lottery. All say they do not oppose competition but claim that they have had to fight against the Lottery with one hand tied behind their backs.

That has put pressure on

the government – first the Conservatives and now Labour – to relax gaming laws. The gaming industries have also tried to regain market share by devising new games and marketing incentives.

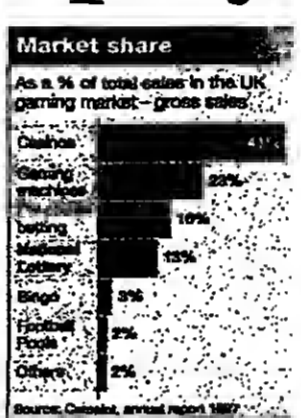
The philosophy behind UK gaming legislation enshrined in the 1968 Gaming Act – which many believe is hopelessly outdated – is that operators must not stimulate demand. That put strict restrictions on advertising.

However, the then government's enthusiastic launch of the National Lottery – with an advertising campaign focused firmly on winnings rather than helping good causes – undermined this philosophy.

Leisure operators were able to argue that the Lottery made a nonsense of the notion that people should not be encouraged to gamble. The government, as sponsor of the Lottery had become the biggest promoter of gambling, they said.

"The Lottery had to change the government's view on betting and gaming. Without it, we wouldn't have got deregulation," says Stephen Devany, head of corporate affairs at Ladbrokes, which owns the UK's largest chain of betting shops and Vernons, the second largest pools company.

The Home Office acknowledges that gambling deregulation has been aimed at "evening out playing fields." The measures have included allowing bingo and pools to advertise on television as well as in print. Betting shops were allowed to



open up their shop fronts and membership rules for casinos have been relaxed. Limits on fruit machine and bingo prizes have been raised.

However deregulation has been painstakingly slow, with some of the benefits coming too late for rival operators to recover from the Lottery's initial blow.

Mr Devany believes that if the pools companies – the worst affected industry – had been allowed television and radio advertising before the Lottery's launch instead of later, they may have been able to prevent the scale of the subsequent decline. Vernons has reduced its workforce by two-thirds.

Pools operators say the game has suffered because it is the most similar to the Lottery. "Both are low cost, long odds types of bets," says Roger Calvert, secretary of the Pools Promoters Association, which is lobbying for cuts to pools betting duty which has already been reduced from

37.5 per cent to 26.5 per cent – still above the Lottery's duty rate of 12 per cent. Annual pools turnover has fallen by 40 per cent since the Lottery's launch from £337m to £256m last year.

However, Mr Calvert says the Lottery's blow has not sent the industry into terminal decline. "Companies are trying to think up new games and ways to interest the public. They are fighting back." Littlewoods, the largest operator, has launched new games, such as the short-form pools and scratch cards.

Bingo has also been badly affected. Attendances fell by up to 15 per cent between March 1995 – when lottery scratch cards were introduced – and November 1996. The number of clubs has fallen by 7 per cent since 1992 to 855 clubs last year, according to Mintel, the market research group.

The pressures have polarised the industry. Rank and Bass – which account for about 60 per cent of UK bingo players – broke away from the Bingo Association of Great Britain, which used to represent the whole industry, last year and set up a rival organisation – the British Bingo Operators Association.

The split was caused because Rank and Bass wanted to lobby for limits on the amount they could add to prize money to be lifted in order to offer large jackpots. Smaller operators, however, feared they would be unable to compete if the government were to allow this. Betting shops have argued

ably gained the most from the Lottery's launch and subsequent deregulation. Although betting turnover fell after the introduction of the Lottery, deregulation has allowed the industry to develop new sources of income. Fruit machines were permitted for the first time in betting shops in June 1995 and bets allowed on the Irish Lottery.

However, after the industry's demands for bets on the National Lottery were put last year, the largest bookmakers launched 49's, a rival numbers game. Camelot, operator of the Lottery, tried to stop the game arguing that it threatened the revenues raised by the Lottery for good causes. However, after losing a private case in August against Ladbrokes, William Hill and Coral, operators of the game, it dropped its legal case and called on parliament instead to intervene.

Many within the gaming industries complain that the piecemeal process of deregulation has led to inconsistencies. Bacta, the trade association for amusement machines, has called for a minimum age of 18 years for all types of gambling – instead of 16 years of the Lottery and 18 for all-cash amusement machines which have a maximum prize of £10.

It believes a new Lottery Act, which is expected to follow the government's July White Paper, could be used by the government to clear up such inconsistencies – and to level the playing fields.

SCRATCH CARDS • by David Pilling

The biggest impulse buy

The low-skill, short thrill game is trying to acquire some sparkle

He is 14 years old. A loner. Unpopular at school and unloved at home, he takes some solace in the instant thrill of scratch cards, easily available at an unscrupulous newsagent's less than 500 yards from his school gate. When he wins he feels like a hero. When he loses he tries to impress his peers by taking it on the chin. More often than not he loses.

This is the profile of a typical under-age scratch card player, says Paul Bellringer, director of CamCare, the national helpline for problem gamblers launched by the Environment last month.

In the vast majority of cases, says Mr Bellringer, scratch cards are nothing more than the "harmless flutter" claimed by Camelot, whose instant cards, launched in March 1995, command about 90 per cent of the market. But they can have a more pernicious effect. "Scratch cards – being low stake, rapid turnover and interactive – are a form of gambling that has an addictive side, and some people are tempted to chase losses," he says. This may even lead them into petty crime.

Iain Wilkie, a partner in the hospitality and leisure group at Ernst & Young, says that, even though stakes are low, "for vulnerable people, scratch cards

have the potential for being hard gaming". Unlike bingo at the outset and of the gambling spectrum, Instantants have no social element, payouts are relatively low (because much of the stake goes to good causes) and the thrill of playing is brief.

Instantants pay out 55 per cent of the gross stake as winnings, compared with nearly 30 per cent for bingo and 80 per cent for bookmakers. Many bingo halls – and all casinos – require punters to apply 24 hours in advance for membership, ensuring a so-called "cooling off period". To play scratch cards one simply walks into a newsagent's.

Camelot hotly contests the idea that Instantants are anything other than a bit of fun. "Instantants do not attract gamblers because playing is an entirely random activity," says Louise Harvey, a Camelot spokeswoman. "You are not looking at odds, studying the form or applying skill... we don't believe there is a problem of excessive playing, or of under-age gambling."

In a very few cases, concedes Ms Harvey, people with a tendency to compulsive behaviour may find that scratch cards feed their addiction. Camelot has set up hot-lines to enable the public to report newsagents suspected of selling scratch cards to under-16-year-olds. It has also agreed to contribute £150,000 to GamCare over the next three years. Camelot may be leery of having Instantants associated with compulsive behaviour: but *impulsive* behaviour is

quite another matter. Instantants are far and away the biggest impulse buy in the UK, outstripping the combined sales of Coca-Cola, Mars and Kit-Kat.

In the year to March 1997, sales of Instantants were £376.5m 18.5 per cent of Camelot's total turnover. Sales were down from £1.52bn in the year to March 1996 when they reached nearly 30 per cent of total turnover, but Camelot says the decline is fully in line with the experience of scratch cards in other countries. Sales peaked at above 40m tickets a week shortly after Instantants were launched, but have since dropped back to a weekly 15m.

Mr Wilkie at Ernst & Young calls this performance "somewhat disappointing". According to TFL Publications, a US-based publisher of the Lottery Almanac, per capita sales of Instantants ranked only 48th in the world behind a host of US state lotteries and national lotteries in Cyprus, France, Austria, Australia, Ireland, Sweden, Italy and Switzerland. While annual per capita spending on Instantants was a mere £28 in the UK in 1996, the citizens of Massachusetts were spending a whopping \$348.

Certainly Camelot has not had things all its own way when it comes to Instantants. Bookmakers, who were hit hard when Camelot introduced scratch cards, have fought back with their 49's game. In August, Camelot lost a private case against Ladbrokes, William Hill and Coral, operators of the game,

after the court ruled that 49's was not an illegal lottery. Bookmakers have responded to Instantants with other initiatives, such as allowing their customers to bet on the Irish Lottery.

Likewise, rival scratch card operators have upped their efforts. At the end of 1996, Littlewoods, the privately owned retail and leisure group, acquired UK Charity Lotteries in a deal bringing together URCL's Lucky brand with Littlewoods' Scratchies. According to Littlewoods, these have a combined turnover of about £70m.

To fend off rivals, Camelot has sought to maintain interest in Instantants by introducing games with different prize structures and methods of play. Each has to be approved by Oflot, the industry regulator. In spite of this hurdle, Camelot has introduced 33 games in just 2½ years.

In July, Camelot won Oflot approval to launch a TV game show, expected to begin on the BBC next year where scratch card winners will be entitled to appear and play for bigger prizes.

Mr Wilkie thinks the innovation will have the desired effect. "Given that scratch cards are very straightforward – that is one of their attractions – the real fertile ground is in identifying new methods of bringing them to the customer," he says. "Television is a good method of doing that because it will bring the product directly into people's homes. This is very much the way forward."

Successful businesses don't gamble with their telecoms

Racal Telecom's own nationwide communications infrastructure supports the UK National Lottery, the world's largest and most efficient.

The network serves around 25,000 lottery terminals in retail outlets throughout the country.

Racal's special ability to provide secure, high-performance, reliable communications is essential for transactions currently running at several billion pounds a year.

Why entrust your telecoms to anybody else?

Phoenix House, Station Hill, Reading, Berkshire RG1 1NB.

RACAL

Racal Telecom

سكرا من الاموال